翔宇疏浚控股有限公司
XIANGYU DREDGING HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 871

2012 ANNUAL REPORT

CONTENTS

Corporate Information

Board of Directors

Executive Directors:

Mr. Liu Kaijin *(Chief Executive Officer and Joint Chairman)*
Ms. Zhou Shuhua

Non-Executive Director:

Mr. Liu Longhua *(Joint Chairman)*

Independent Non-Executive Directors:

Ms. Leung Mei Han
Ms. Peng Cuihong
Mr. Huan Xuedong
Mr. Chan Ming Sun Jonathan

Audit Committee

Ms. Leung Mei Han *(Chairman)*
Ms. Peng Cuihong
Mr. Huan Xuedong
Mr. Chan Ming Sun Jonathan

Remuneration Committee

Ms. Peng Cuihong *(Chairman)*
Ms. Leung Mei Han
Mr. Liu Longhua
Mr. Chan Ming Sun Jonathan

Nomination Committee

Mr. Liu Longhua *(Chairman)*
Ms. Leung Mei Han
Ms. Peng Cuihong
Mr. Chan Ming Sun Jonathan

Authorised Representatives

Mr. Liu Kaijin
Ms. Wong Elsie

Company Secretary

Ms. Wong Elsie *(Associate Member of HKICPA)*

Legal Advisor

Chiu & Partners *(as to Hong Kong Law)*

Compliance Advisor

Guotai Junan Capital Limited

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers

Rural Commercial Bank of Huanghai, Yancheng City, Jiangsu
Branch office of Agricultural Bank of China Limited
Jiangsu Changshu Rural Commercial Bank
Bank of Jiangsu, Yan Cheng
China Construction Bank Asia Corporation
Shenzhen Development Bank (now known as Ping An Bank)
China Everbright Bank (Nanjing Branch)

Registered Address

Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman KY1-1111,
Cayman Islands

Headquarters and Principal Place of Business

The People's Republic of China:
No. 1 Xingyu Road, Baocai Industrial Zone,
Panhuang Town, Yancheng City,
Jiangsu Province,
the PRC

Hong Kong:
Office 19, 36th Floor, China Merchants Tower,
Shun Tak Centre,
Nos.168–200 Connaught Road Central,
Hong Kong

Principal Share Registrar

Codan Trust Company (Cayman) Limited

Hong Kong Share Registrar

Tricor Investor Services Limited

Website

www.xiangyu.com.hk

Definition

"Board"	the board of Directors
"CG Code"	the code provisions as contained in "Corporate Governance Code and Corporate Governance Report" set out in Appendix 14 to the Listing Rules (as amended from time to time), which are adopted (with modification) by the Board as its corporate governance code
"Company"/"Xiangyu"	Xiangyu Dredging Holdings Limited
"Contractual Arrangements"	a series of contracts, brief details of which are set out in note 2 to the financial statements in this annual report, pursuant to which all economic benefits and risks arising from the business of Jiangsu Xingyu are transferred to Xiangyu PRC
"Director(s)"	director(s) of the Company
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Jiangsu Jiaolong"	江蘇蛟龍打撈航務工程有限公司 (Jiangsu Jiaolong Salvage Harbour Engineering Co. Ltd.*), a non-wholly owned subsidiary of the Company
"Jiangsu Xingyu"/ "PRC Operational Entity"	江蘇興宇港建有限公司 (Jiangsu Xingyu Port Construction Company Limited*), a wholly owned subsidiary of the Company
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (as amended from time to time)
"Mr. Liu"	Mr. Liu Kaijin, joint chairman, chief executive officer and an executive Director (who is the spouse of Ms. Zhou)
"Ms. Zhou"	Ms. Zhou Shuhua, an executive Director (who is the spouse of Mr. Liu)
"PRC"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (as amended from time to time)
"Shareholder(s)"	shareholder(s) of the Company
"Share(s)"	ordinary share(s) of the Company
"Share Option Scheme"	the share option scheme approved by Shareholders on 24 May 2011
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Xiangyu PRC"	江蘇翔宇港建工程管理有限公司 (Jiangsu Xiangyu Port Constructing Project Administration Co. Ltd.*), a wholly owned subsidiary of the Company
"Xiangyu Water Management"	江蘇翔宇水務有限公司 (Jiangsu Xiangyu Water Management Company Limited*), a wholly owned subsidiary of the Company

* *For identification purpose only*

Financial Summary

The following is a summary of the published results and assets and liabilities of the Group for the past five financial years.

Results

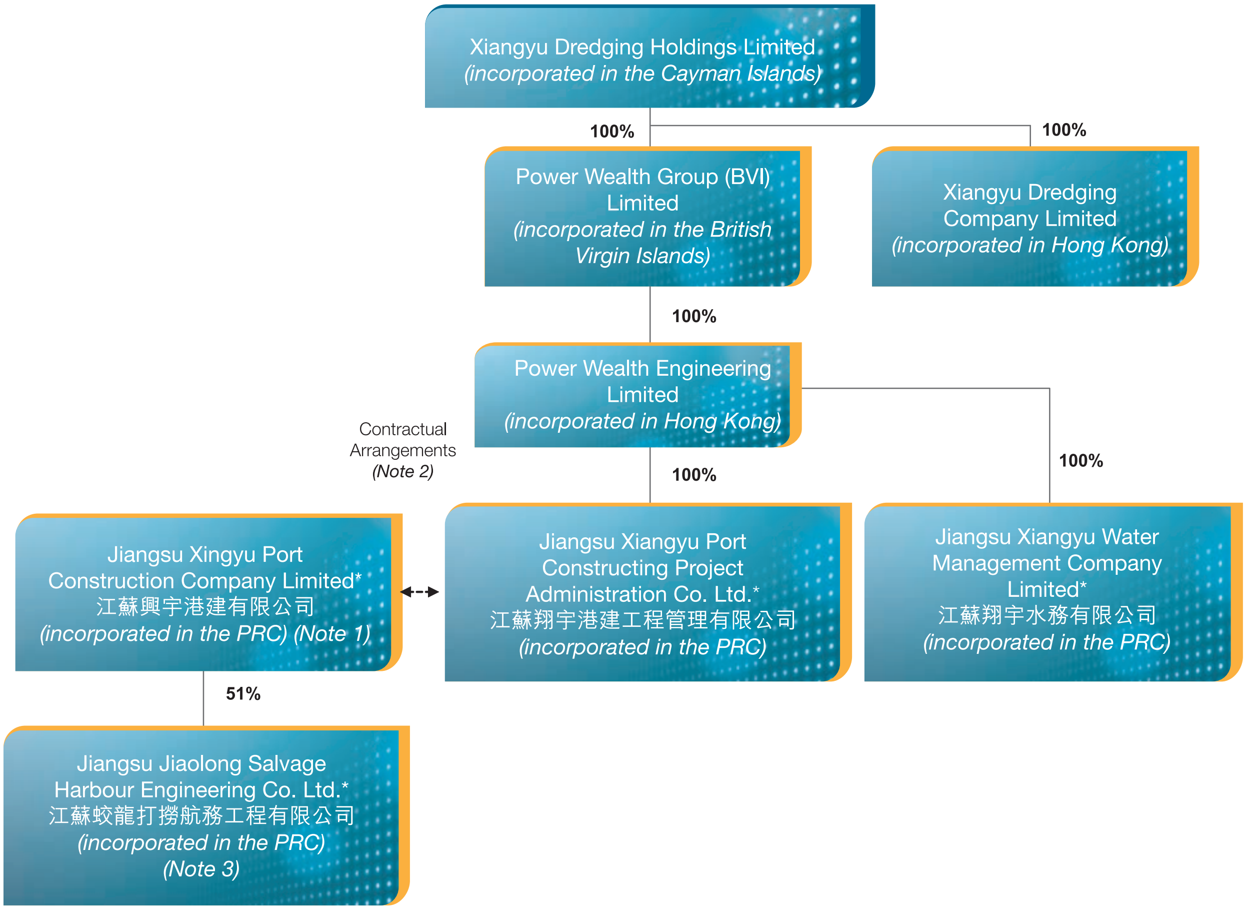
	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**966,027**	1,137,303	374,883	346,549	133,349
Profit before tax	**294,886**	415,730	135,669	121,971	61,925
Income tax expense	**(80,494)**	(112,566)	(40,639)	(33,130)	(16,261)
Consolidated net profit of the Group for the year and total comprehensive income for the year	**214,392**	303,164	95,030	88,841	45,664
Consolidated net profit of the Group for the year and total comprehensive income for the year attributable to:					
Owners of the company	**199,495**	303,164	95,030	88,841	45,664
Non-controlling interests	**14,897**	—	—	—	—
	214,392	303,164	95,030	88,841	45,664

Assets and Liabilities

	31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**1,577,510**	830,877	376,573	71,901	62,972
Current assets	**1,019,689**	734,028	292,960	314,134	95,896
Current liabilities	**(955,466)**	(334,924)	(233,327)	(218,407)	(80,081)
Non-current liabilities	**(97,858)**	—	—	—	—
Net assets	**1,543,875**	1,229,981	436,206	167,628	78,787

Group Chart

The following sets out the corporate structure of the Group as at 31 December 2012:



Notes:

1. Mr. Liu and Ms. Zhou are the registered holders of the registered capital in Jiangsu Xingyu, and Ms. Zhou holds all her equity interest in Jiangsu Xingyu as trustee for Mr. Liu.

2. On 19 April 2011, Jiangsu Xingyu, Xiangyu PRC, Mr. Liu and Ms. Zhou entered into the Contractual Arrangements, pursuant to which all economic benefits and risks arising from the business of Jiangsu Xingyu are transferred to Xiangyu PRC.

3. The acquisition of Jiangsu Jiaolong was completed in February 2012.

* *For identification purpose only*

CEO Statement

To Shareholders, customers and employees,

2012 is the second year after the Company was first listed, and it is also a challenging year for us. During the year, a worldwide economic recession brought about the most difficult business environment than ever. However, given our fiscal strength and strong customer base, together with continuous enhancement of our dredging capacity and technology capability and focusing on the development of environmental protection dredging business which is a highly profitable segment, the Company successfully stood out from our competitors.

The global economic downturn and the tightened financial positions of the PRC local governments caused major difficulties in the development of the dredging industry in 2012 which hit an unprecedented low. The industry downturn accelerated the industrial integration and weeding out. During fiscal year 2012, we took this opportunity to complete a strategic acquisition of Jiangsu Jiaolong, a leader in the salvage and hoisting industry. This move elevated the Company and gave it strategic advantage in the domestic salvage and hoisting market with the synergistic effects of broadening our customer base.

Rather than being caused by shrinking market demand, the short-term industrial downturn in dredging business was mainly due to the customers' restructuring of their financial planning which in turn postponed their demand for dredging services. Considering the promising outlook for environmental protection dredging business, the Company fine-tuned its strategic deployment to meet the growing demand for the environmental protection dredging services as a long-term focus for the next five years. Further to its entering into a new environmental protection contract that amounted to about RMB100 million in Wuhan, Hubei Province, the PRC, the Group also co-operated with a state-owned enterprise for securing sizeable environmental protection dredging projects in Huan Province, the PRC. Meanwhile, the Group actively explored to extend its services to other geographical areas including from northern China to southern China, as well as the overseas markets, and in particular in countries in the South-east Asia.

In 2012, Jiangsu Xingyu has joined the China Dredging Association* (中國疏浚協會) and the China Water Transport Construction Association* (中國水運建設行業協會) and the Company was awarded "The Best China Dredging Company of the Year 2012*" (二零一二年中國最佳疏浚企業) by Frost & Sullivan in recognition of the Group's leading position in dredging industry in the PRC. Internally, the Company has strengthened its operation capability by recruiting ex-senior staffs from state-owned enterprises in dredging industry; and has enhanced corporate governance through adding new Board members.

The Company is fortified that the current short-term downturn is a part of any economic cycles. It is expected that each segment of the dredging industry will display different growth momentum. Following the recovery of macro economy and the implementation of national policies for urbanization in 2013, the growth of capital and reclamation dredging business will rebound in the near future, and our environmental protection dredging business is ready to rise up to any challenge and meet success.

I have every confidence that, with its professional expertise and valuable experience, Xiangyu is in a great position to lead the way. With solid pipelines and diversified long-term business strategies, the Group will continue to expand steadily. Your support will certainly enable us to capture these opportunities to maximise our potential. Thank you.

Liu Kaijin
Joint Chairman, Chief Executive Offer
and Executive Director

26 March 2013

* *For identification purpose only*

Management Discussion and Analysis

Financial Review

The Group has four main operating and reportable segments, namely, (i) capital and reclamation dredging business ("CRD Business"); (ii) environmental protection dredging and water management business ("EPD and Water Management Business"); (iii) ancillary construction work related to the capital and reclamation dredging ("Dredging Related Construction Business"); and (iv) other works operated in marine sites such as salvage and hoisting works ("Other Marine Business").

Revenue

During the year, the Group recorded a drop in total revenue. The total revenue for the year ended 31 December 2012 was about RMB966.0 million, representing a decrease of about 15.1% as compared with about RMB1,137.3 million in the year 2011. As regards the CRD Business segment and EPD and Water Management Business segment, the respective revenues generated during the year ended 31 December 2012 were about RMB533.7 million and about RMB223.8 million which represented a decrease of about 42.6% and an increase of about 8.2% respectively from the corresponding segments' revenue in the year ended 31 December 2011. The decrease in revenue of CRD Business segment was mainly due to the slow-down of construction progress of certain projects. Revenue from EPD and Water Management Business segment increased in 2012 because the Group started to generate revenue from this segment since late 2011.

During the year, the Group was awarded a sizeable contract in the Dredging Related Construction Business with reasonable return. As a result, the Group recorded revenue of about RMB74.2 million in this segment for the year ended 31 December 2012. No revenue was recorded in this business segment during the year ended 31 December 2011.

Further, subsequent to the completion of the acquisition of Jiangsu Jiaolong in February 2012, the Group has expanded into a new business segment (namely, Other Marine Business) that contributed revenue of about RMB134.3 million to the Group for the year 2012.

Financial Review (Continued)

Operating Cost and Gross Profit

The Group's operating cost decreased from about RMB708.8 million for the year ended 31 December 2011 to about RMB636.6 million for the year ended 31 December 2012, representing a decrease of about 10.2%. The Group recorded a gross profit of about RMB329.4 million for the year ended 31 December 2012, representing a decrease of 23.1% as compared with the year ended 31 December 2011 of about RMB428.5 million.

The gross profit margin of CRD Business dropped from about 43.2% for the year ended 31 December 2011 to about 36.3% for the year ended 31 December 2012 as a result of the diversification to new projects that required equipment which was not owned by the Group, hence bringing about an increase in use of sub-contractors.

The gross profit margin of EPD and Water Management Business increased from about 13.0% for the year ended 31 December 2011 to about 31.5% for the year ended 31 December 2012 as relatively higher start-up costs were incurred in 2011.

The Group's new business segment (namely, Other Marine Business) was operated at a strong profit margin of about 32.1% during the year ended 31 December 2012 while the Group's Dredging Related Construction Business, which principally includes ancillary construction work of capital and reclamation dredging services, is a segment that traditionally operated at relatively low but acceptable gross profit margin.

Other Income

The Group obtained incentive payment from local PRC government to support the growth of the Group. Other income decreased by about RMB6.7 million to about RMB37.4 million for the year ended 31 December 2012 which was mainly due to the decrease in such incentive income.

Marketing and Promotion Expenses

Marketing and promotion expenses increased by about RMB5.3 million to about RMB15.2 million for the year ended 31 December 2012 due to the increase in marketing activities in the year in order to expand the Group's customer bases.

Administrative Expenses

Administrative expenses for the year ended 31 December 2012 amounted to about RMB38.7 million which included the share-based payment expense which were related to share options granted in March and May 2012 amounted to about RMB9.2 million. Administrative expenses excluding such one-off expense for the year ended 31 December 2012 was about RMB29.5 million, representing a slight decrease of about RMB0.8 million as compared to about RMB30.2 million for the year ended 31 December 2011.

Financial Review (Continued)

Income Tax Expense

Due to the decrease in profit before tax, income tax expense for the year ended 31 December 2012 amounted to about RMB80.5 million, representing a decrease of about RMB32.1 million compared with the year 2011.

Profit for the Year

As a combination effect of the above, the profit for the year decreased by about 29.3% from about RMB303.2 million for the year ended 31 December 2011 to about RMB214.4 million for the year ended 31 December 2012.

Earnings Per Share

Earnings per Share decreased by about 41.9% from RMB0.43 per Share in 2011 to RMB0.25 per Share in 2012. Apart from the decrease in profit for the year, the decrease was also due to the difference in weighted average number of Shares between 2011 and 2012.

The Company was listed in June 2011 and the new Shares issued upon listing only account for the calculation of the weighted average number of Shares from the date of listing to 31 December 2011. As a result, although there was no change in the share capital structure of the Company since it was listed, the weighted average number of Shares for the year ended 31 December 2011 was smaller than the weighted average number of Shares for the year ended 31 December 2012.

Financial Management Policies

The Group in its ordinary course of business is exposed to market risks such as currency risk and interest rate risk. The Group's risk management strategy aims to minimise the adverse effects of these risks on its financial performance.

As most of the Group's trading transactions, monetary assets and liabilities are denominated mainly in Renminbi, which is the Group's functional and reporting currencies, and save for certain bank balances in United States dollars and Hong Kong dollars, the impact of foreign exchange exposure to the Group was minimal and there was no significant adverse effect on normal operations during the reporting period. As at the end of each reporting period, no related hedge was made by the Group.

As current interest rates stay at relatively low levels, the Group has not entered into any interest rate hedging contracts or any other interest rate related derivative financial instrument. However, the Group continues to monitor its related interest rate exposure closely.

Financial Review (Continued)

Financial Position

As at 31 December 2012, total equity of the Group amounted to about RMB1,543.9 million (2011: RMB1,230.0 million). The increase was mainly due to net profit for the year of 2012.

The Group's net current assets as at 31 December 2012 amounted to about RMB64.2 million (2011: RMB399.1 million). The current ratio, which is calculated by dividing current assets by current liabilities as at 31 December 2012 was 1.07 (2011: 2.19). The decreases in both the Group's net current assets and current ratio were mainly due to the Group's acquisition of property, plant and equipment and operation of built-and-transfer projects (the accounts receivables therefrom will be repayable by instalments in three years) which were mainly financed by the Group's own liquid funds and short term bank loans.

Liquidity and Financial Resources

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimise the costs of funds, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated mostly in Renminbi and Hong Kong dollars.

Included in net current assets were cash and various bank deposits totalling about RMB106.4 million as at 31 December 2012, representing a decrease of about RMB19.4 million as compared with about RMB125.8 million as at 31 December 2011.

Due to the tightening of economic environment in the PRC since late 2011, the Group's projects were unavoidably affected. It slowed down the receivables collection and construction progress. The Group's accounts receivables as at 31 December 2012 amounted to about RMB969.5 million (2011: RMB676.7 million).

Included in such receivables, about RMB328.3 million was due from a state-owned enterprise customer, out of which about RMB98.9 million was construction works receivable already overdue and about RMB16.8 million was interest due and payable. Apart from these, the remainder receivables stand about RMB212.6 million and they shall be payable in 2013 and 2014.

On 31 December 2012, the Group entered into a conditional agreement with one of its major trade debtors (the "Debtor"), pursuant to which the Group agreed to acquire from the Debtor 95% equity interests in its subsidiary (the "TargetCo") and all shareholder's loan owing by the TargetCo for an aggregate consideration of about RMB288.3 million, subject to fulfillment of certain conditions precedent to completion. The only assets of the TargetCo are two pieces of land and the consideration for the said acquisition shall be settled by way of setting off against the receivable from the Debtor at the amount equivalent to the said consideration. At the same time, the Group also entered into another conditional agreement with the 5% minority equity interest owner of the TargetCo for acquiring of the remaining 5% equity interest at RMB0.4 million. Please refer to the Company's announcements dated 31 December 2012 and 2 January 2013 for further details.

Financial Review (Continued)

Liquidity and Financial Resources (Continued)

On 22 March 2013, the Group entered into another agreement with an independent third party (the "Third Party") whereby the Group has agreed to transfer to the Third Party its 85% equity interest (and the same proportion of shareholder's loan) held by the Group in the TargetCo for a total consideration of approximately RMB253.0 million (the "3rd Agreement"), to be settled in the following manner:

(i) deposit of RMB10 million within three days of signing of the 3rd Agreement;
(ii) payment of not less than RMB70 million (not including the deposit) before 31 December 2013;
(iii) payment of not less than RMB100 million during the year ending 31 December 2014; and
(iv) payment of any outstanding balance before 31 December 2015.

Interest is payable by the Third Party to the Group at a rate of 6% per annum on the amount of unpaid balance starting from 1 January 2014. Please refer to the Company's announcement dated 22 March 2013 for further details.

Though the Group did not have any collateral over the receivables, the management considered that there is no recoverability problem as to its receivables as the remaining amounts were mainly due from reputable enterprises. The increase in amount of overdue receivables as at 31 December 2012 did not significantly impair the Group's liquidity position as it has a positive operating cash flows before movements in working capital changes for the year.

In order to minimize the risk of placing heavy reliance on entering into collaboration with government projects and to further diversify the overall credit risk, the Group has been widening its customer base to sizable PRC private enterprises since 2012.

Total liabilities of the Group as at 31 December 2012 were about RMB1,053.3 million (2011: RMB334.9 million). The increase mainly represented increase in bank loans of about RMB409.0 million, all of which are denominated in Renminbi and will mature within one year and all are at fixed interest rates. The Group's gearing ratio (calculated by bank borrowings divided by total assets) increased to a level of 16.7% (2011: 1.6%), which the Board believes is at a healthy level.

Charge Over Assets of the Group

As at 31 December 2012, the Group's bank borrowings are secured by pledged bank deposits of about RMB76.0 million, charges over certain dredgers and land owned by the Group, two properties owned by certain non-controlling shareholders of the Company's subsidiary; and personal guarantees by Mr. Liu and Ms. Zhou. There were also intra-group charges between two of the Company's wholly-owned subsidiaries as a result of the Contractual Arrangements, pursuant to which all economic benefits and risks arising from the business of Jiangsu Xingyu have been transferred to Xiangyu PRC.

Financial Review (Continued)

Material Acquisitions and Disposals

Apart from those discussed above in this annual report, the Group completed the acquisition of Jiangsu Jiaolong in February 2012. In addition, it acquired a piece of land and a high-powered dredger in May 2012 and September 2012, details of which were set out in the Company's announcements dated 8 May 2012 and 27 September 2012 respectively.

During the year, the Group also entered into legally binding framework agreement with a state-owned enterprise in respect of the incorporation of a joint venture for the purpose of securing environmental protection dredging projects in Hunan Province, the PRC. Please refer to the Company's announcement dated 21 October 2012 for further details.

Capital Commitments and Contingent Liabilities

Apart from the capital commitment in respect of setting up of a joint venture as set out in the paragraph headed "Material Acquisitions and Disposals" above, the Group did not have any significant capital commitments committed but not provided for as at 31 December 2012.

Capital commitment as at 31 December 2011 mainly represented the acquisition costs of Jiangsu Jiaolong.

As at 31 December 2012, the Group did not have any material contingent liability (2011: nil).

Event After End of Reporting Period

On 22 March 2013, the Group entered into a conditional sale and purchase agreement to dispose its 85% of the TargetCo, details of which are set out in the paragraph headed "Liquidity and Financial Resources" of this annual report.

Listing Proceeds

As of 20 June 2011, 200,000,000 new Shares were issued at HK$3.19 per Share, resulting in gross proceeds from Listing which amounted to HK$638.0 million. Net proceeds after payment of all expenses related to listing was about HK$579.0 million (RMB468.3 million). Up to 31 December 2012, all proceeds were used in the manner as stated in the Company's prospectus dated 8 June 2011, and as subsequently disclosed in the Company's announcement dated 8 May 2012.

Employees and Remuneration Policy

As at 31 December 2012, the Group had a workforce of 606 employees (2011: 211). The increase in number of employees was due to the completion of acquisition of Jiangsu Jiaolong (which has since then been consolidated as a subsidiary of the Company) in 2012. Total staff cost for the year ended 31 December 2012 was about RMB55.7 million (2011: RMB25.1 million). The Group's remuneration policy is basically determined by the Directors, based on the performance of individual employees and the market conditions. In addition to salaries and discretionary bonuses, employee benefits included pension contributions and options which may be granted under Share Option Scheme (under which options to subscribe for Shares that could be granted to independent non-executive Directors would be subject to the applicable conditions and independence restrictions as set out in the Listing Rules). The Group also provides on-going training to its employees.

During the year under review, the Group did not experience any strikes, work stoppages or significant labor disputes which affected its operations in the past and it did not experience any significant difficulties in recruiting and retaining qualified staff.

Business Review

If 2011 was the year of incubation, 2012 would be the year of implementation. Despite of high uncertainty in the PRC economy, the Group continued to make significant moves in this year: the completion of the acquisition of Jiangsu Jiaolong led the Group to start a new profitable segment in Other Marine Business; the Group's success in the trial project in Wuhan, Hubei Province, the PRC has opened up the robust market in the environmental protection dredging business; and the strategic move of the Group's head quarter enable it to be eligible to the local government incentive grant for further three years.

However, things always take time to grow. It is the fact that the Group is not immune to the domestic economic slow-down and the severe downturn of global economy that hampered the development of the dredging industry in 2012. As a result, the Group recorded a total revenue of approximately RMB966.0 million for the year, decreased by 15.1% as compared to corresponding period of last year. Gross profit of the Group for the year was approximately RMB329.4 million, representing a decline of 23.1% from last year. Profit attributable to Shareholders for the year amounted to approximately RMB199.5 million.

To cope with market slow-down, the Company has adjusted the marketing strategy to diversify the risk of customer concentration by developing to reputable enterprises in the private sector. During the year, the Group secured orders with a total value of approximately RMB800 million from a private enterprise in Shandong Province, the PRC. Meanwhile, it also strives to build long-term relationships not only with existing customers but also potential customers by enhancing the mutual communications, aiming to capture the future development of the emerging market in environmental protection dredging business as well as the recovery of the conventional market.

With the solid foundation the Group has all along laid for the environmental protection dredging market, by securing an order of about RMB100 million, the Group successfully opened up the environmental protection dredging market in Hunan Province, the PRC, a market that is seen to have a bright future. The Company believes that the orders in the pipelines for the next two years are promising.

Management Discussion and Analysis (Continued)

Business Review (Continued)

In spite of recording a decrease in the net profit as a result of the industry downturn and the operational difficulties such as impacts of unexpected weather, geographical conditions etc., the Group continues to preserve its operating efficiency and equipment utilization rate to ensure its profitability.

During the year, the Company acquired a high-powered dredger "Kaijin No.18*"(開進18號) to enhance its dredging capacity. It also take a step forward in its research and development of dehydration equipment for environmental protection dredging, which has achieved technical breakthroughs with encouraging results. As for the salvage and hoisting business segment, "Qinhanggong No. 1*" (秦航工一號) — a new large lift-on-lift-off ship successfully launched its maiden voyage. It is believed that by continuously optimizing its production processes and improvement and maintenance of key production equipment, production efficiency could be improved.

Outlook

Looking forward, the environment protection policies and planned investments in water conservancy projects contemplated in the "Twelfth Five-Year Plan" will bring in demands both in medium term and in the long run that provide a significant boost to the industry. The Group also sees robust demands in the overseas markets especially in Southeast Asia where the Group will actively explore opportunities. The management is confident that the prospect of the dredging industry is promising.

* *For identification purpose only*

Board of Directors

Executive Directors

Mr. Liu Kaijin (劉開進先生), aged 52, the founder of the Group, was appointed as a Director on 31 May 2010, and was re-designated as an executive Director and chief executive officer on 24 May 2011. Mr. Liu entered into a service agreement with the Company for an initial term of three years with effect from 1 June 2011. Mr. Liu is further appointed as the joint chairman of the Board on 5 March 2012. Mr. Liu is the spouse of Ms. Zhou, an executive Director.

Mr. Liu completed his secondary education in 1977. In 2003, Mr. Liu obtained a certificate as a senior construction engineer from the Human Resources Bureau of Yancheng City* (鹽城市人事局). As his experience and knowledge in the PRC dredging business grew, Mr. Liu established Jiangsu Xingyu in 2007. Mr. Liu worked in the dredging industry of the PRC for approximately 20 years.

Mr. Liu is a member of the 6th session of the committee of the Chinese People's Political Consultative Conference of Yancheng City, Jiangsu Province* (中國人民政治協商會議江蘇省鹽城市第六屆委員會委員) and a member of the 14th session of the People's Congress of Yandu District, Yancheng City* (鹽城市鹽都區第十四屆人民代表大會代表).

Mr. Liu is the chairman of Jiangsu Xingyu and the chairman and general manager of Xiangyu PRC and Xiangyu Water Management; and has been responsible for overseeing their daily operations and planning their business strategies. Jiangsu Xingyu, Xiangyu PRC and Xiangyu Water Management are subsidiaries of the Company. He is currently a director of each of the subsidiaries of the Company. He has discloseable interests in the Company under the provisions of the SFO.

Ms. Zhou Shuhua (周淑華女士), aged 50, was appointed a Director on 18 August 2010 and re-designated as an executive Director on 24 May 2011. Ms. Zhou entered into a service agreement with the Company for an initial term of three years with effect from 1 June 2011. Ms. Zhou is mainly responsible for general administrative work of our Group. She is the spouse of Mr. Liu, joint chairman of the Board, an executive Director and chief executive officer of the Group.

Ms. Zhou graduated from The Correspondence Institute of the Party School of the Central Committee of the Communist Party of China* (中共中央黨校函授學院), the PRC in December 1999 and obtained a graduation certificate for undergraduate courses in administrative management. She also obtained a graduation certificate for undergraduate courses in broadcasting in May 2001 from Nanjing Normal University* (南京師範大學), the PRC.

Ms. Zhou is a director of Jiangsu Xiangyu, a wholly-owned subsidiary of the Company. She has discloseable interests in the Company under the provisions of the SFO.

* *For identification purpose only*

Board of Directors (Continued)

Non-executive Director

Mr. Liu Longhua (劉龍華先生), aged 60, was appointed as the Company's non-executive Director and joint chairman on 25 April 2012. He is also the chairman of the Company's nomination committee and member of the Company's remuneration committee. Mr. Liu entered into an appointment letter with the Company for an initial term of three years commencing from 25 April 2012.

Mr. Liu graduated from Tsinghua University and he was accredited with the qualification of senior engineer. Mr. Liu is currently the chairman of Beijing Urban Construction Investment Development Co., Ltd. ("Beijing Urban Construction"), a company listed on the Shanghai Stock Exchange (stock code: 600266). Mr. Liu has acted as the vice chairman and general manager of Beijing Construction Engineering Group Co., Limited* (北京建工集團有限責任公司) and the chairman and party secretary of Beijing Urban Construction Group Co., Ltd. (a major shareholder of Beijing Urban Construction). He has extensive experience in corporate governance of sizeable state-owned enterprises.

Mr. Liu is currently a member of the Beijing Municipal Committee of the Chinese People's Political Consultative Conference* (中國人民政治協商會議北京市委員會成員), chairman of the Constructor Committee of China Construction Industry Association* (中國建築業協會建造師分會會長), and the vice chairman of China Construction Industry Association* (中國建築業協會副會長).

Independent Non-executive Directors

Ms. Leung Mei Han (梁美嫻女士), aged 54, was appointed as an independent non-executive Director on 24 May 2011. She is the chairman of the Company's audit committee and a member of each of the Company's remuneration committee and nomination committee. Ms. Leung entered into an appointment letter with the Company for an initial term of three years commencing from 1 June 2011.

Ms. Leung graduated from the University of Queensland, Australia, with a bachelor degree in Commerce in February 1982. She is a fellow member of Certified Public Accountants, Australia. Ms. Leung has extensive experience in accounting, securities, corporate finance and related areas. She has been providing corporate finance advisory services for securities and international merger and acquisition transactions.

Since 2007, Ms. Leung has been the chairman and director of Optima Capital Limited (a firm of corporate finance advisers and a licensed corporation under the SFO. Ms. Leung is an executive director of AMCO United Holding Limited (formerly known as Guojin Resources Holdings Limited, a company listed on the Stock Exchange, stock code: 630). She is also an independent non-executive director of each of the following companies, whose shares are listed on the main board of the Stock Exchange: Yue Da Mining Holdings Limited (stock code: 629), Bossini International Holdings Limited (stock code: 592) and Four Seas Mercantile Holdings Limited (stock code: 374).

* *For identification purpose only*

Board of Directors (Continued)

Independent Non-executive Directors (Continued)

Ms. Peng Cuihong (彭翠紅女士), aged 66, was appointed as an independent non-executive Director on 24 May 2011. She is the chairman of the Company's remuneration committee and a member of each of the Company's audit committee and nomination committee. Ms. Peng entered into an appointment letter with the Company for an initial term of three years commencing from 1 June 2011.

Ms. Peng graduated from Shanghai Maritime University (上海海事大學) (formerly known as Shanghai Maritime Institute (上海海運學院)) and obtained a graduation certificate for undergraduate courses in marine transport economics in 1970. Ms. Peng worked at the Water Transportation Bureau of the Ministry of Communications (交通部) (now Ministry of Transport (交通運輸部)) from 1975 to 2006. She was the director of the transportation management division and deputy director of the water transport department of the Ministry of Communication (交通部).

Ms. Peng has been engaged in the field of water transport and port management for approximately 30 years. She has conducted in-depth studies and research on the fundamental situation, legal system, development policies and management system of water transport and port of the developed countries such as the European countries and the United States for a considerable number of years. Ms. Peng has held, organised and participated in the drafting on laws, regulations and departmental rules of the PRC related to water transport and ports such as Regulations of the Administration of Water Transport* (《水路運輸管理條例》) and Port Law* (《港口法》), and the reforming of the national port system.

Ms. Peng currently serves as the executive vice chairman of the China Pilot Association* (中國引航協會). She ceased to be an independent director of Zhanjiang Port (Group) Co., Ltd. (湛江港(集團)股份有限公司), a joint stock company incorporated in the PRC, during the year.

Mr. Huan Xuedong (還學東先生), aged 62, was appointed as the Company's independent non-executive Director on 25 April 2012. He is also the member of the Company's audit committee. Mr. Huan entered into an appointment letter with the Company for an initial term of three years commencing from 25 April 2012.

Mr. Huan graduated from the Correspondence Institute of the Party School of the Central Committee of the Communist Party of China (中共中央黨校函授學院), the PRC with a graduation certificate for undergraduate courses in party administration. He also completed his postgraduate studies in Applied Sociology in Nanjing University (南京大學).

Mr. Huan has served as the Head of Bureau of Township Enterprises of Yan Cheng City* (鹽城市鄉鎮企業局) and the Head of Bureau of Water Management of Yan Cheng City* (鹽城市水利局). Mr. Huan acted as a member of the 9th session of the National Committee of the Chinese People's Political Consultative Conference of Jiangsu Province (中國人民政治協商會議江蘇省第九屆委員會) in 2003.

Currently, Mr. Huan is the chairman of the Agricultural and Water Enterprises Association of Yan Cheng City* (鹽城市農水企業協會).

* *For identification purpose only*

Board of Directors (Continued)

Independent Non-executive Directors (Continued)

Mr. Chan Ming Sun Jonathan (陳銘燊先生), aged 40, was appointed as the Company's independent non-executive Director in November 2012. He is a member of each of the Company's audit committee, remuneration committee and nomination committee. Mr. Chan entered into an appointment letter with the Company for an initial term of three years commencing from 30 November 2012.

Mr. Chan graduated from the University of New South Wales, Australia with a Bachelor of Commerce degree in Accounting and Computer Information Systems. Mr. Chan is both a member of the Hong Kong Institute of Certified Public Accountants and Certified Public Accountants, Australia. He has extensive working experience in accounting, investment and corporate finance. Mr. Chan worked in an international accounting firm for about five years and currently, he is an associate director of Go-To-Asia Investment Limited.

Mr. Chan is also an independent non-executive director of Hao Tin Resources Group Limited (stock code: 474) and Shenyang Public Utility Holdings Company Limited (stock code: 747), whose securities are listed on the main board of the Stock Exchange, and of China Data Broadcasting Holdings Limited (stock code: 8016), whose securities are listed on the growth enterprise market of the Stock Exchange as at 31 December 2012. On 25 March 2013, he was appointed as an independent non-executive director of Fintronics Holdings Company Limited (stock code: 706). He was also an independent non-executive director of Capital VC Limited (stock code: 2324), a company whose securities are listed on the main board of the Stock Exchange, between August 2004 and April 2012.

Senior Management

Mr. Yang Xianbo (楊先波先生), aged 48, joined the Group as general manager of Jiangsu Xingyu in November 2012 and responsible for overseeing the Group's Dredging operations.

Mr. Yang has more than 20 years of experience in the dredging industry. Mr. Yang has been responsible for the development, implementation and management of a number of national key dredging projects and he is highly renowned in the dredging industry. Prior to joining Jiangsu Xingyu, Mr. Yang was appointed as the deputy director of Changjiang Wuhan Waterway Engineering Company* (長江武漢航道工程局副局長), a sizeable state-owned dredging enterprise under the Ministry of Transport (交通運輸部). He was awarded with the Certificate of Senior Engineer in waterways engineering* (航道工程高級工程師) by the Ministry of Communication (交通部) (now Ministry of Transport (交通運輸部)) in 2006 and the Certificate of Registration of Constructor of First Class* (一級建造師) by the Ministry of Construction (建設部) in 2008.

Mr. Wang Julin (王菊林先生), aged 61, joined the Group as the chief engineer in August 2010, and is responsible for the management of the engineering department of Jiangsu Xingyu. Mr. Wang studied the profession of ports and waterways at Hohai University (河海大學) of the PRC (formerly known as East China Technical University of Water Resources (華東水利學院)) from 1974 to 1978. He was awarded the Certificate of Senior Engineer in waterways engineering by the Ministry of Communications (交通部) (now Ministry of Transport (交通運輸部)) in 1998 and was awarded the Certificate of Registration of Constructor of First Class by the Ministry of Construction (建設部) in 2008.

Mr. Wang has over 30 years of experience in the implementation, management and administration of waterways engineering. Before joining the Group, he worked for the engineering department of Changjiang Wuhan Waterway Engineering Company* (長江武漢航道工程局) for about 15 years and has held the positions of officer and project manager. He has been responsible for sizeable dredging projects in the PRC. Thereafter, Mr. Wang worked in a subsidiary under Changjiang Wuhan Waterway Engineering Company* (長江武漢航道工程局) as a manager for about three years. In 1996, Mr. Wang re-joined Changjiang Wuhan Waterway Engineering Company for about eight years and has held the positions of deputy chief and chief of the engineering and business department and deputy chief engineer (constructor of first class). He has been responsible for the inspection, negotiation and overseeing of various projects and entering into relevant contracts.

* *For identification purpose only*

Senior Management (Continued)

Mr. Liu Baocheng (劉寶城先生), aged 48, deputy general manager of Jiangsu Xingyu joined our Group in 2010, and is mainly responsible for the research, improvement, and modification of equipment.

Mr. Liu graduated from Dalian Water Transportation College (大連海運學院) (now Dalian Maritime University (大連海事大學)) in the PRC, majoring in marine machinery management, and obtained a bachelor degree of engineering in 1985.

He has extensive experience in implementation and management of dredging and reclamation projects. Prior to joining the Group, Mr. Liu worked at Tianjin Dredging Engineering Co., Ltd.* (天津航道局工程有限公司) and its affiliates from 1985 to 2004, during the time of which he was responsible for the operation, management and supervision of several trailing suction hopper dredgers and cutter suction dredgers, and has participated in sizeable dredging projects. Mr. Liu was re-designated as the machinery supervisor and deputy head of the marine machinery department of First Dredging Company under Tianjin Dredging Engineering Co., Ltd. (天津航道局工程有限公司第一疏浚公司) in 1998 and was re-designated as the deputy head and chief engineer of marine machinery of the marine machinery department of Tianjin Dredging Engineering Co., Ltd. in 2000.

From 2005 to 2010, Mr. Liu served as the general manager of Qingdao Beiya Construction Company Limited* (青島北亞建設公司) and was mainly responsible for the entire process of design, construction, testing and management of dredgers.

Mr. Lee Chih Chiang Michael (李志強先生), aged 63, joined the Group in April 2011 as the Group's senior project manager of the environmental protection dredging division.

Mr. Lee obtained a Master of Science degree in Multinational Operations Management in 1979 from the West Coast University, Los Angeles, the United States. Mr. Lee has received water treatment training organised by the National Taipei University of Technology (formerly known as National Taipei Institute of Technology) and the Foundation of Taiwan Industry Service.

Mr. Lee has been engaged in the environmental protection dredging, operation and maintenance for about 20 years. Before joining the Group, Mr. Lee has worked as a manager or a chief engineer with several water treatment and environmental protection dredging companies in Taiwan and the PRC.

* *For identification purpose only*

Senior Management (Continued)

Mr. Leung Kim Hung (梁劍虹先生), aged 52, joined the Group in December 2012 as the Group's general counsel and is in charge of the overall legal and compliance matters of the Group.

Mr. Leung graduated with a bachelor degree of Laws from the University of London and obtained a postgraduate certificate in Laws from the University of Hong Kong in 1988 and 1989, respectively. In 1996, he was awarded the Master degree in Applied Finance from Macquarie University. He is also a holder of a Bachelor degree of Laws from China University of Political Science and Law* (中國政法大學), a Master of Science degree in Corporate Governance and Directorship from Hong Kong Baptist University and an International Diploma in Compliance from International Compliance Association.

He was admitted as solicitor in Hong Kong and in England and Wales in 1991 and 1992. He has worked as an in-house legal counsel since 1996 when he joined a sizable listed group as the head of legal department. He later served a PRC based e-Commerce company as its senior vice president and head of legal. Before joining the Group, he was the head of legal of Asian Pacific Region of an European based renewable energy group.

Ms. Elsie Wong (黃愛詩女士), aged 43, joined the Group in May 2010 and is the joint chief financial officer and company secretary of the Company. She is responsible for the financial compliance and company secretarial matters of the Group. She is also the company secretary of the Hong Kong subsidiaries of the Company.

Ms. Wong graduated from the City Polytechnic of Hong Kong (now the City University of Hong Kong) with a Bachelor degree of Arts majoring in Accountancy in 1991. Prior to joining the Group, Ms. Wong, as a practising certified public accountant, provides auditing and accounting related services including company secretarial services. She worked in the assurance and advisory business services department of an international accounting firm for over nine years.

Ms. Wong is a practising certified public accountant in Hong Kong, a member of the Hong Kong Institution of Certified Public Accountants and fellow member of the Association of Chartered Certified Accountants.

* *For identification purpose only*

Senior Management (Continued)

Mr. Xu Wenyue (徐文躍先生), aged 41, joined the Group in October 2011 as the joint chief financial officer. He is the head of accounting department of the Group and is responsible for overseeing the daily accounting and financial matters of the Group, both in the PRC and Hong Kong.

Mr. Xu graduated from the profession of accounting of Nanjing Economic Institute* (南京經濟學院) in 1999. Mr. Xu is a senior accountant in the PRC (中國高級會計師) and both a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) and the China Certified Tax Agents Association (中國註冊稅務師協會). Prior to joining the Group, Mr. Xu worked in a listed group in Hong Kong as a financial controller.

Ms. Ding Jiying (丁繼穎女士), aged 37, joined the Group in December 2011 as the internal control officer. She is responsible for overseeing the internal control matters of the Group.

Ms. Ding passed the examinations of the PRC Accountant Examination (Intermediate level)* (全國中級會計師考試) and Nanjing University of Finance and Economics* (南京財經大學) in 2000 and 2007, respectively, and awarded with the Bachelor of Management. She is qualified as a PRC Certified Accountant* (全國註冊會計師) and China Real Estate Appraisers* (全國註冊房地產估價師).

Ms. Ding has about eight years' experience in accounting, financial and internal control aspects. Prior to joining the Group, she has worked in certain sizeable enterprises as financial manager and also worked in the auditing and business consulting division of a PRC accounting firm, mainly responsible for internal control review engagements.

* *For identification purpose only*

The Board of the Company is pleased to present the corporate governance report for the year ended 31 December 2012 (the "Review Period"). This report describes how the Group has applied its corporate governance practices to its daily activities.

Corporate Governance Practices

The Group's corporate governance framework bases on two main beliefs:

- We are well-committed to maintaining good corporate governance practices and procedures; and
- We recognise the need to adopt practices that improve ourselves continuously for a qualify management.

The Stock Exchange has published the amendments on CG Code contained in Appendix 14 to the Listing Rules which set out the principles and the code provisions, and was effective from 1 April 2012 onwards. The Group has applied these principles and adopted all code provisions, where applicable, of the CG Code as our own code of corporate governance. The Directors consider that the Company has complied with all applicable code provisions under the code on Corporate Governance Practices (formerly set out in Appendix 14 to the Listing Rules) for the period from 1 January 2012 to 31 March 2012 and CG Code (the new amended version of the code on Corporate Governance Practices as set out in Appendix 14 to the Listing rules) for the period from 1 April 2012 to 31 December 2012, save for the attendance of general meetings by certain independent non-executive Directors as set out in paragraph headed "General Meetings with Shareholders" in this annual report.

Compliance with the Model Code

The Company has applicable adopted the Model Code as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the Directors. In response to specific enquiry made by the Company, each of the Directors confirmed that he/she complied with the required standard of dealings and the code of conduct regarding securities transactions by the Directors throughout the Review Period.

We believe through the operation of an effective board, sound internal controls, and accountability to Shareholders, we are able to maximise the value of all Shareholders. The following summarised the corporate governance practices adopted and observed by the Group during the Review Period.

Constitutional Documents

At the 2012 annual general meeting ("2012 AGM"), amendments to the Company's articles of association ("Articles") were approved by the Shareholders, mainly to bring the Articles in line with the amendments made to the Listing Rules. An updated version of the Memorandum and Articles of Association of the Company was published on the websites of the Stock Exchange and the Company after it was approved by Shareholders at the 2012 AGM.

Board of Directors

Board Composition

As at 31 December 2012 and to the date of this annual report, the Board comprises two executive Directors, one non-executive Director and four independent non-executive Directors.

Composition of the Board and its changes during the year ended 31 December 2012 and up to date of this annual report are as follows:

Executive Directors:

Mr. Liu Kaijin
Ms. Zhou Shuhua

Non-executive Directors:

Mr. Liu Longhua	(Appointed on 25 April 2012)
Mr. Dong Liyong	(Resigned on 25 April 2012)

Independent Non-executive Directors:

Ms. Leung Mei Han	
Ms. Peng Cuihong	
Mr. Huan Xuedong	(Appointed on 25 April 2012)
Mr. Chan Ming Sun Jonathan	(Appointed on 30 November 2012)
Mr. Zhang Jun	(Retired on 15 May 2012)

The biographical details, relationships among them and the terms of appointment of the Directors (including non-executive Director and independent non-executive Directors) as at 31 December 2012 are set out in the section headed "Directors' and Senior Management's Profile" of this annual report.

The Board believes that it has a balanced composition of executive Directors, non-executive Director and independent non-executive Directors and there is a strong independent element on the Board, which can effectively exercise independent judgement. As at 31 December 2012, the Company has four independent non-executive Directors who provide the Group with adequate check and balance. Each of them is considered to be independent and has complied with the provisions set out in Rule 3.13 of the Listing Rules. All of them are identified as such in all communications that disclose the names of the Directors. Their functions are not only limited to a restricted scope and they have contributed to the Group with diversified industry expertise, and advised on the Group's management and proceedings.

Out of the four independent non-executive Directors, two of them, namely Ms. Leung Mei Han and Mr. Chan Ming Sun Jonathan, have professional qualifications in accounting or related financial management expertise.

Board of Directors (Continued)

Responsibilities of the Board and Delegation

The Board is responsible for the approval and monitoring of the Group's overall strategies and policies, approval of business plans, evaluation of its performance, overseeing the management and in charge of corporate governance function. It is also responsible for promoting the success of the Group and its businesses by directing and supervising the Group's affairs.

The Board delegates day-to-day operations of the Group to executive Directors and senior management while reserving certain key matters for its approval. Board committees for specific functions are also set up to ensure efficient Board operations. The respective functions and responsibilities reserved to the Board and those delegated to Board committees have been clearly set out in their respective terms of reference.

Decisions of the Board are communicated to the management through executive Directors who have attended the Board meetings.

Chairman and Chief Executive Officer

On 5 March 2012, Mr. Liu Kaijin was re-designated as joint chairman of the Company. Mr. Dong Liyong ceased to act as the Company's joint chairman on 25 April 2012 following his resignation as non-executive Director, and Mr. Liu Longhua was appointed as the Company's joint chairman on the same day.

Mr. Liu Kaijin, the chief executive officer of the Company, is responsible for the day-to-day management of the Group's business, while another joint chairman is responsible for the management of the Board. Their roles were clearly defined and segregated to ensure balanced power and responsibilities.

Appointments, Re-election and Removal of Directors

Each of the executive Directors is engaged on a Director's service contract with the Company. The letters of appointment of non-executive Director and independent non-executive Directors also set out the specific terms and conditions relative to their respective appointment. All remuneration paid to executive Directors are covered by respective service contracts and all remuneration paid to non-executive Directors are covered by respect letters of appointment. Details of the term of appointment of the Directors are disclosed in the section "Director's Service Contracts" of the Directors' Report in the annual report.

Pursuant to the Articles, any Director appointed by the Board shall hold office until the next following general meeting of the Company and shall then be eligible for re-election. Also, pursuant to the Articles, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director (including the non-executive Director and independent non-executive Directors) shall be subject to retirement by rotation at least once every three years.

Every newly appointed Director has been provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the relevant statutes, laws, rules and regulations.

Board of Directors (Continued)

Board Meetings

The Group adopted the practice of holding Board meetings for executive Directors regularly and holding Board meetings that included both executive Directors and non-executive Directors at least four times every year. The Board will also meet on other occasions when a board-level decision on a particular matter is required.

Generally, at least 14-days' notice for the Company's regular Board meeting, and reasonable time for all other meetings, would be given prior to such meetings. Agenda for a meeting are sent to all Directors prior to the meeting. The Directors will receive details of agenda items for decision at least three days before regular Board meetings.

In order to ensure that Board procedures, and all applicable rules and regulations are followed, all Directors are able to access the Company's company secretary for advice from time to time. Moreover, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances at the Company's expense. All Directors were given an opportunity to include matters in the agenda of meetings for discussion.

To ensure a competent Board operation, all Directors gave sufficient time and attention to the affairs of the Group during the Review Period. During the Review Period, 11 Board meetings (excluding delegated committees' meetings) were held and attendance of each Director is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Executive Directors		
Mr. Liu Kaijin	10	11
Ms. Zhou Shuhua	10	11
Non-executive Directors		
Mr. Liu Longhua (since 25 April 2012)	7	9
Mr. Dong Liyong (up to 25 April 2012)	2	2
Independent Non-executive Directors		
Ms. Leung Mei Han	9	11
Ms. Peng Cuihong	10	11
Mr. Huan Xuedong (since 25 April 2012)	7	9
Mr. Chan Ming Sun Jonathan (since 30 November 2012)	2	2
Mr. Zhang Jun (up to 15 May 2012)	4	4

Minutes of Board meetings and meetings of Board committees are kept by the company secretary or other duly authorised person. All minutes are open for inspection by any Director on reasonable notice. Such minutes are recorded in sufficient detail of the matters considered and decisions reached. Draft and final versions of minutes of Board meetings are sent to all Directors for their comments and records.

Board of Directors (Continued)

Directors' Training

As part of an ongoing process of directors' training, the Company updates directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

For the year ended 31 December 2012, all Directors participated in appropriate continuous professional development activities summarised as follows:

Name of Director	Reading materials relevant to the Company's business or to their duties and responsibilities	Attending training courses on the topics related to corporate governance or regulations
Executive Directors:		
Mr. Liu Kaijin	√	√
Ms. Zhou Shuhua	√	√
Non-executive Directors:		
Mr. Liu Longhua (since 25 April 2012)	√	√
Mr. Dong Liyong (up to 25 April 2012)	√	
Independent Non-executive Directors:		
Ms. Leung Mei Han	√	√
Ms. Peng Cuihong	√	√
Mr. Huan Xuedong (since 25 April 2012)	√	√
Mr. Chan Ming Sun Jonathan (since 30 November 2012)	√	√
Mr. Zhang Jun (up to 15 May 2012)	√	

Board Committees

Remuneration Committee

The Company has set up a remuneration committee ("Remuneration Committee") with specific terms of reference with appropriate modification when necessary, which state clearly its authority and duties. To keep the Remuneration Committee's terms of reference in line with the Listing Rules amendments, the Board adopted new terms of reference of the Remuneration Committee in March 2012.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management and reviewing the specific remuneration packages of all executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.

Board Committees (Continued)

Remuneration Committee (Continued)

During the year ended 31 December 2012, the Remuneration Committee conducted review of the remuneration policy and structure of the Directors and senior management which will take into account the prevailing market condition and the responsibility of individual members. No change to the terms was proposed to the Board by the Remuneration Committee. Also, terms of appointment for the Directors who were appointed during the year ended 31 December 2012 were approved by the Remuneration Committee.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

In the band of	Number of individuals
Nil to HK$1,000,000	8

As at 31 December 2012, a majority of the Remuneration Committee's members are independent non-executive Directors. During the Review Period, three committee meetings were held and the attendance of each member as to the said meetings is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Non-executive Directors:		
Mr. Liu Longhua (since 25 April 2012)	1	1
Mr. Dong Liyong# (up to 25 April 2012)	1	2
Independent Non-executive Directors:		
Ms. Peng Cuihong#	3	3
Ms. Leung Mei Han	3	3
Mr. Chan Ming Sun Jonathan (since 30 November 2012)	—	—

Mr. Dong Liyong acted as the chairman of the Remuneration Committee up to 30 March 2012 and Ms. Peng Cuihong acted as chairman of the Remuneration Committee since 30 March 2012.

Nomination Committee

The Company has set up a nomination committee ("Nomination Committee") with specific terms of reference with appropriate modification when necessary, which state clearly its authority and duties. To keep the Nomination Committee's terms of reference in line with the Listing Rules amendments, the Board adopted new terms of reference of the Nomination Committee in March 2012.

Board Committees (Continued)

Nomination Committee (Continued)

The principal duties of the Nomination Committee include reviewing the size, structure and composition of the Board, developing and formulating relevant policies and procedures for nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence and appropriateness of the independent non-executive Directors based on the criteria such as reputation for integrity, accomplishment and experience in the relevant sectors, professional and educational background, and potential time commitments.

The Nomination Committee has reviewed the size and composition of the Board and considered nomination of new Board members for the year ended 31 December 2012. During the year, three new Directors including two independent non-executive Directors, were appointed by the Board. The Nomination Committee has considered candidature and made recommendations to the Board having regard to the relevant skills, experience and the independence of the proposed new Directors.

During the Review Period, one committee meeting was held and the attendance of each member as to the said meetings is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Non-executive Directors:		
Mr. Liu Longhua# (since 25 April 2012)	1	1
Mr. Dong Liyong# (up to 25 April 2012)	—	—
Independent Non-executive Directors:		
Ms. Leung Mei Han	1	1
Ms. Peng Cuihong	1	1
Mr. Chan Ming Sun Jonathan (since 30 November 2012)	—	—

Mr. Dong Liyong acted as the chairman of the Nomination Committee up to 25 April 2012, and Mr. Liu Longhua has acted as chairman of the Nomination Committee since 25 April 2012.

Audit Committee

The Company has established an audit committee ("Audit Committee") with specific written terms of reference that have included the duties which are set out in CG Code provision C.3.3 with appropriate modification when necessary. To keep the Audit Committee's terms of reference in line with the Listing Rules amendments, the Board adopted new terms of reference of the Audit Committee in March 2012.

The major role and function of the Audit Committee are to ensure the maintenance of proper relationship with the Company's auditor, the establishment of proper review and control arrangements relating to internal control systems, financial reporting and the compliance to applicable reporting requirements.

Board Committees (Continued)

Audit Committee (Continued)

The Audit Committee reviewed the consolidated financial statements for the six months ended 30 June 2012 and consolidated financial statements for the year ended 31 December 2012, including the Group's adopted accounting principles and practices, internal control systems and financial reporting matters (in conjunction with the external auditor for the annual results). The Audit Committee also monitors the effectiveness of the external audit and oversees the appointment, remuneration and terms of engagement of the Company's external auditor, as well as their independence. The Audit Committee endorsed the accounting treatments adopted by the Company and, to the best of its ability assured itself that the disclosures of the financial information in this annual report comply with the applicable accounting standards and Appendix 16 to the Listing Rules.

As at 31 December 2012, the Audit Committee comprised four independent non-executive Directors and regular Audit Committee meetings were held pursuant to its terms of reference. During the Review Period, three committee meetings were held in the attendance of the external auditor, and the attendance of each member as to the said meetings is set out as follows:

Name of Director	Number of attendance	Number of meetings held during term of office
Independent Non-executive Directors:		
Ms. Leung Mei Han#	3	3
Ms. Peng Cuihong	3	3
Mr. Huan Xuedong (since 25 April 2012)	2	2
Mr. Chan Ming Sun Jonathan (since 30 November 2012)	—	—
Mr. Zhang Jun (up to 15 May 2012)	1	1

Ms. Leung Mei Han acted as the chairman of the Audit Committee for the year ended 31 December 2012.

Directors' Interests in Competing Businesses

None of the Directors or the management of the Company or their respective associates (as defined under the Listing Rules) have any interests in a business which competes or may compete with the business of the Group, or has any other conflict of interest with the Group during the year.

The Company has received from each of the Directors an annual confirmation of his/her undertaking as to non-competition.

Financial Reporting and Audit

The Directors acknowledged their responsibility for preparing the financial statements that give a true and fair view in accordance with applicable statutory requirements and accounting standards and the requirements of the Listing Rules. The Group adopted the going concern basis in preparing its financial statements.

A statement by the external auditor of the Company about their reporting responsibilities is set out in the section headed "Independent Auditor's Report" in this annual report.

During the year ended 31 December 2012, remuneration in respect of non-audit services, namely, the review of interim report and review of continuing connected transactions provided by Deloitte Touche Tohmatsu amounted to about RMB405,000 and RMB227,000, respectively. The remuneration in respect of audit service was amounted to about RMB2,430,000.

Internal Control

The Board is responsible for internal control which, as the Directors determine, is necessary to enable the preparation of the financial statements that are free from material misstatement. It has overseen the Group's internal control systems and ensure that sound and effective control systems are maintained. The Board approves and reviews internal control policies while day-to-day management of operational risks and implementation of mitigation measures lie with the management.

A review of the effectiveness of the Group's internal control systems has been conducted with the scopes recommended by the Audit Committee. The Audit Committee and the Board have reviewed the internal control report, and concluded that the key areas of the Group's internal control systems are reasonably and adequately implemented to their satisfaction, with room of improvement.

Communication with Shareholders and Investors

General Meetings with Shareholders

The Company communicates with its Shareholders through its annual report, interim report and statutory and voluntary announcements. The Directors, company secretary or appropriate members of senior management, where appropriate, also respond to inquiries from Shareholders and investors on a timely basis.

The Company's annual general meeting provides a useful platform for direct communication between the Board and Shareholders. Separate resolutions are proposed on each substantially separate issue at the general meetings. The 2012 AGM was held on 15 May 2012. After the 2012 AGM, on the same day, an extraordinary general meeting ("2012 EGM") was held to re-elect two directors who were appointed by the Board subsequent to the issuance of the notice of 2012 AGM.

Resolutions put to vote at the general meetings of the Company are taken by poll. Procedures regarding the conduct of the poll are explained to the Shareholders at the commencement of each general meeting. The poll results are posted on the websites of the Stock Exchange and the Company respectively on the same day as the poll.

Communication with Shareholders and Investors (Continued)

General Meetings with Shareholders (Continued)

Except for Ms. Peng Cuihong and Mr. Huan Xuedong ,who due to other engagement, did not attend the 2012 AGM and 2012 EGM, and Mr. Zhang Jun, who due to other engagement, did not attend the 2012 AGM, all Directors who held office at time of respective general meetings attended the 2012 AGM and 2012 EGM. Pursuant to Code Provision A.6.7 of the CG code, independent non-executive Directors should attend general meetings. To ensure compliance in the future, the Company will take all reasonable measures to arrange the schedule in such a cautious way that all Directors (including the independent non-executive Directors) may attend the general meetings.

Mr. Liu Kaijin, joint chairman of the Board, has invited chairman of Audit Committee, Remuneration Committee and Nomination Committee to attend the general meetings. In the absence of chairman of Remuneration Committee, all other members of the Remuneration Committee attended the general meetings. Representative of the Company's external auditor also attended the 2012 AGM.

Shareholders' Rights to Convene Extraordinary General Meeting and Put Forward Proposals at General Meetings

In accordance with article 64 of the Articles, extraordinary general meetings shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company's company secretary for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

There is no provision in the Articles setting out procedures for Shareholders to put forward a resolution at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

As regards proposing a person for election as a Director by Shareholders, please refer to the procedures available on the website of the Company.

Investor Relations

The Company endeavours to disclose all material information about the Group to all interested parties as widely and timely as possible. It has disclosed all necessary information to the Shareholders in compliance with the Listing Rules. When announcements are made through the Stock Exchange, the same information will be made available on the Company's website. During the year ended 31 December 2012, the Company has issued announcements which can be viewed on the Company's website.

Shareholders and investors may at any time send their enquiries and concerns to the Board in writing to the company secretary at the Company's office in Hong Kong or through the e-mail address: *info@xiangyu.com.hk*. Shareholders may also raise their enquiries in general meetings.

The Directors are pleased to present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2012.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 37 to the consolidated financial statements. Save for the commencement of a new segment of Other Marine Business, there were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and of the Group at that date are set out in the accompanying financial statements.

The Board has declared interim dividend of HK$0.02 per ordinary Share. The Directors do not recommend the payment of a final dividend for the year ended 31 December 2012.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

Share Capital

Details of movements in the Company's share capital during the year are set out in note 24 to the consolidated financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

For the year ended 31 December 2012, neither the Company nor of its subsidiaries purchased, redeemed or sold any listed securities of the Company.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 36 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2012, the Company has no reserve available for distribution as calculated in accordance with the Companies Law (2001 Revision) of the Cayman Islands. Under the laws of the Cayman Islands, the share premium account is distributable to the Shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

In the year under review, revenue to the Group's five largest customers accounted for about 68.9% of the Group's total revenue for the year and the revenue from the largest customer included therein accounted for about 33.7% of the Group's total revenue.

In the year under review, supplies from the Group's five largest suppliers accounted for about 46.9% of the Group's total operating cost for the year and supplies from the largest supplier included therein accounted for about 22.8% of the Group's total operating cost.

None of the Directors of the Company or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers for the year ended 31 December 2012.

Directors' Rights to Acquire Shares or Debentures

Save for those disclosed in the paragraphs headed "Share Option Scheme" and "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" in this Directors' report in this annual report, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Directors

The Directors who held office during the year and up to the date of this report were:

Executive Directors:

Mr. Liu Kaijin
Ms. Zhou Shuhua

Non-executive Directors:

Mr. Liu Longhua	(Appointed on 25 April 2012)
Mr. Dong Liyong	(Resigned on 25 April 2012)

Independent Non-executive Directors:

Ms. Leung Mei Han	
Ms. Peng Cuihong	
Mr. Huan Xuedong	(Appointed on 25 April 2012)
Mr. Chan Ming Sun Jonathan	(Appointed on 30 November 2012)
Mr. Zhang Jun	(Retired on 15 May 2012)

In accordance with article 109 of the Articles, Mr. Chan Ming Sun Jonathan will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting of the Company.

In accordance with article 105(A) of the Articles, Mr. Liu Kaijin and Ms. Peng Cuihong will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Under the same article 105(A), Ms. Leung Mei Han will retire from directorship at the forthcoming annual general meeting and, because of her work commitment, will not offer herself for re-election.

Independence Confirmations from Independent Non-executive Directors

The Company has received, from each of the independent non-executive Director a confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of its independent non-executive Directors to be independent.

Directors' Service Contracts

Each of the executive Directors has entered into a Director's service contract and each of the non-executive Directors signed a letter of appointment with the Company for an initial term of three years commencing from their respective date of appointment. All of them are subject to retirement by rotation and re-election in accordance with the Articles.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Remuneration

The Directors' fees are subject to Shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

Directors' Interests in Contracts

Save for those disclosed in the financial statements, no Director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Management Contracts

Save for the Contractual Arrangements between subsidiaries of the Group, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Continuing Connected Transactions

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year ended 31 December 2012:

On 19 April 2011, the following entities entered into the Contractual Arrangements pursuant to which all economic benefits and risks arising from the business of Jiangsu Xingyu are transferred to Xiangyu PRC:

(i) Xiangyu PRC, a wholly foreign-owned enterprise and a wholly-owned subsidiary of the Company,
(ii) Jiangsu Xingyu, a limited liability company established in the PRC and deemed to be a wholly-owned subsidiary of the Company under the Contractual Arrangements, and
(iii) equity interests holders of Jiangsu Xingyu, namely Mr. Liu and Ms. Zhou (both of them are executive Directors and controlling shareholders of the Company).

Further details of which are described in note 2 to the financial statements.

The Stock Exchange has granted a waiver pursuant to Rule 14A.42(3) of the Listing Rules to the Company for all transactions under the Contractual Arrangements from strict compliance with the applicable announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors confirm that during the Review Period, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules (save for the exemptions granted under the above-mentioned waiver).

Continuing Connected Transactions (Continued)

The independent non-executive Directors have confirmed that the above-mentioned continuing connected transactions were entered into:

(i) in the ordinary and usual course of the Group's business;
(ii) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the Shareholders of the Company as a whole; and
(iii) either on normal commercial terms or on terms no less favorable to the Group than those available to or from independent third parties.

Besides, the independent non-executive Directors have conducted an annual review on the Contractual Arrangements and have confirmed that:

(i) the transactions carried out during the year ended 31 December 2012 have been entered into in accordance with the relevant provisions of the Contractual Arrangements and have been operated so that all revenue generated by Jiangsu Xingyu has been retained by Xiangyu PRC;
(ii) no dividends or other distributions have been made by Jiangsu Xingyu to its equity interest holders; and
(iii) any new contracts or renewed contracts have been entered into on the same terms as the existing Contractual Arrangements and are fair and reasonable so far as the Group is concerned and in the interests of the Shareholders as a whole.

In accordance with Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditor have confirmed that:

a. nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;
b. nothing has come to the auditor's attention that causes the auditor to believe that the said transactions were not entered into in accordance with the relevant agreements governing such transactions; and
c. nothing has come to the auditor's attention that causes the auditor to believe that dividends or other distributions have been made by Jiangsu Xingyu to the holders of its equity interests.

Related Party Transactions

Details of the related party transactions are set out in note 32 to the consolidated financial statements. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules, except for those described in the paragraph headed "Continuing Connected Transactions", in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

Share Option Scheme

The Company has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group.

Further details of the terms of the Share Option Scheme are set out in note 35 to the consolidated financial statements.

Details of the twelve share options granted during the year ended 31 December 2012 are as follows:

Name or category of participant	Number of underlying Shares (subject of the share options) Outstanding at 1 January 2012	Granted during the year	Cancelled during the year	Outstanding at 31 December 2012	Exercisable of offer	Exercisable period	Closing price immediately before the date of offer (HK$ per Share)	Exercise price* (HK$ per Share)
Employees of the Group								
In aggregate	—	42,000,000	—	42,000,000	30 March 2012	19 April 2012 to 30 March 2014 (note a)	2.04	2.192
Others								
In aggregate	—	12,000,000	—	12,000,000	30 March 2012	19 April 2012 to 30 March 2014 (note b)	2.04	2.192
In aggregate	—	26,000,000	(14,000,000)	12,000,000	29 May 2012	18 June 2012 to 29 May 2014 (note c)	1.85	1.920
Total	—	80,000,000	(14,000,000)	66,000,000				

Notes:

(a) Immediately vested.

(b) Subject to vesting period from 19 April 2012 to 19 April 2013.

(c) Subject to vesting period from 18 June 2012 to 18 June 2013.

* The exercise price of the share options may be subject to some adjustments in the case of rights issues, or other similar changes in the Company's capital structure.

Each of the option is granted for consideration of HK$1.

As at 31 December 2012, the Company had outstanding options to subscribe for up to 66,000,000 Shares as per share options granted under the Share Option Scheme. There were no share options exercised or lapsed in the year ended 31 December 2012.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2012, the Directors and the Company's chief executive, and their respective associates had the following interests in the Shares in and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have been taken under such provisions of the SFO) or pursuant to the Model Code, or were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO:

Interests in the Company

			Long position	
Name of Director	**Capacity**	**Notes**	**Number of ordinary Shares**	**Approximate percentage of total number of Shares**
Mr. Liu Kaijin	Interest in controlled corporation	1	325,100,000	40.64%
	Beneficial owner	1	6,050,000	0.75%
Ms. Zhou Shuhua	Interest in spouse	2	331,150,000	41.39%

Notes:

1. Mr. Liu is the sole beneficial owner of Wangji Limited ("Wangji"), a company incorporated in the British Virgin Islands with limited liability, which is the direct owner of 325,100,000 Shares. Further, Mr. Liu is the beneficial owner of 6,050,000 Shares.

2. Ms. Zhou is the spouse of Mr. Liu who is also a Director. By virtue of the SFO, Ms. Zhou is deemed to be interested in all interests of Mr. Liu in the Company including long position and short position.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares (Continued)

Interests in associated corporations

				Long position	
Name of Director	**Name of associated corporation**	**Capacity**	**Notes**	**Share capital**	**Approximate percentage of total number of shareholding**
Mr. Liu Kaijin	Wangji	Beneficial owner	1	200 ordinary shares	100%
	Jiangsu Xingyu	Beneficial owner	1	Register capital of RMB39,315,800	100%
Ms. Zhou Shuhua	Wangji	Interest in spouse	2	200 ordinary shares	100%
	Jiangsu Xingyu	Interest in spouse	2	Register capital of RMB39,315,800	100%

Notes:

1. Mr. Liu is the sole beneficial owner of Wangji. His 100% shareholding interest in Wangji has been charged in favour of Apex Ally Investments Limited and Hong Jun Investment Limited as stated under the section headed "Pre-IPO Investments" in the Company's prospectus dated 8 June 2011. Mr. Liu is also the sole beneficial owner of the entire registered capital of Jiangsu Xingyu. Mr. Liu and Ms. Zhou are registered holders of 98.47% and 1.53% in the registered capital in Jiangsu Xingyu. The 1.53% interest in the registered capital of Jiangsu Xingyu were held on trust by Ms. Zhou for Mr. Liu pursuant to a shareholding confirmation dated 12 July 2010.

2. Ms. Zhou is the spouse of Mr. Liu who is also a Director. By virtue of the SFO, Ms. Zhou is deemed to be interested in all interests of Mr. Liu in the associated corporations including long positions and short position.

Saved as disclosed above, none of the Directors and chief executive of the Company or any of their associates had any interests or short positions in the Shares, underlying shares or debentures of the Company or any associated corporation as at 31 December 2012 (within the meaning of Part XV of the SFO), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors or chief executive of the Company were deemed or taken to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 December 2012, other than those set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" in this annual report as recorded in the register required to be kept under Section 336 of the SFO, to the best of the knowledge and belief of the Directors, the following substantial shareholders had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO or otherwise notified to the Company and the Stock Exchange:

Interests in the Company

Name of Shareholder	Capacity	Notes	Long position Number of ordinary Shares	Long position Approximate percentage of total number of Shares
Wangji	Beneficial owner		325,100,000	40.64%
Mr. Dong Liyong	Interest in controlled corporation Beneficial owner	1	98,602,000 10,000	12.33% —
Ms. Yang Yingying	Interest of spouse	1	98,612,000	12.33%
Shen Wang Limited	Beneficial owner	1	98,602,000	12.33%
Hong Jun Investment Limited ("Hong Jun")	Nominee for another person	2	69,000,000	8.63%
CCB International Asset Management Limited ("CCBI-AM")	Interest in controlled corporation	2	69,000,000	8.63%
CCB International (Holdings) Limited ("CCBI-H")	Beneficial owner	2	69,000,000	8.63%
CCB Financial Holdings Limited ("CCB-FH")	Interest in controlled corporations	2	69,000,000	8.63%
CCB International Group Holdings Limited ("CCBI-Group")	Interest in controlled corporations	2	69,000,000	8.63%
China Construction Bank Corporation ("CCB")	Interest in controlled corporations	2	69,000,000	8.63%
Apex Ally Investments Limited ("Apex Ally")	Beneficial owner	3	45,900,000	5.74%
ICBC International Investment Management Limited ("ICBCI-IM")	Interest in controlled corporation	3	45,900,000	5.74%
ICBC International Holdings Limited ("ICBCI-H")	Interest in controlled corporations	3	45,900,000	5.74%
Industrial and Commercial Bank of China Limited ("ICBC")	Interest in controlled corporations	3	45,900,000	5.74%
Central Huijin Investment Ltd.	Interest in controlled corporations	4	114,900,000	14.36%

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company (Continued)

Interests in the Company (Continued)

Notes:

1. Mr. Dong Liyong is the sole beneficial owner of Shen Wang Limited, a company Incorporated in the British Virgin Islands with limited liability, which is the direct owner of 98,602,000 Shares. Further, he is also the beneficial owner of 10,000 Shares. Ms. Yang Yingying is the spouse of Mr. Dong Liyong. By virtue of the SFO, Ms. Yang Yingying is deemed to be interested in all interests of Mr. Dong Liyong in the Company including long position and short position.

2. Hong Jun is the registered holder of 69,000,000 Shares. Hong Jun is 100% owned by CCBI-AM. By virtue of the SFO, CCBI-AM is deemed to be interested in the interests of the Company held by Hong Jun.

   CCBI-H is the beneficial owner of 69,000,000 Shares held under the name of Hong Jun. CCBI-H is 100% owned by CCB-FH, which is in turn 100% owned by CCBI-Group. CCBI-Group is 100% owned by CCB. By virtue of the SFO, CCB, CCBI-Group and CCB-FH are deemed to be interested in the interests of CCBI-H in the Company.

3. Apex Ally is the beneficial owner of 45,900,000 Shares. Apex Ally is 100% owned by ICBCI-IM which is in turn 100% owned by ICBCI-H. ICBCI-H is 100% owned by ICBC. By virtue of the SFO, ICBCI-IM, ICBCI-H and ICBC are deemed to be interested in the interests of Apex Alley in the Company.

4. CCB and ICBC are 57.15% owned and 35.4% owned, respectively, by Central Huijin Investment Ltd. By virtue of the SFO, Central Huijin Investment Ltd. is deemed to be interested in the interests of the Company held by CCB and ICBC as stated in note (2) and note (3) above.

Saved as disclosed above, no person (other than those set out in the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" in this Directors' report) had interest or short position in the Shares or underlying shares of the Company and associated corporations that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

Audit Committee, Remuneration Committee and Nomination Committee

Details of the Audit Committee, Remuneration Committee and Nomination Committee are set out in section headed "Corporate Governance Report" of this annual report.

Sufficiency of Public Float

As at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company.

Auditor

Deloitte Touche Tohmatsu retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Liu Kaijin
Joint Chairman

Hong Kong, 26 March 2013

Deloitte.
德勤

TO THE MEMBERS OF XIANGYU DREDGING HOLDINGS LIMITED
翔宇疏浚控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Xiangyu Dredging Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 48 to 112, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Auditor's Responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 26 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	**2012 RMB'000**	2011 RMB'000
Revenue	7	**966,027**	1,137,303
Operating cost		**(636,613)**	(708,760)
Gross profit		**329,414**	428,543
Other income	8	**37,384**	44,088
Marketing and promotion expenses		**(15,230)**	(9,914)
Administrative expenses		**(38,707)**	(30,321)
Listing expenses		**—**	(11,786)
Finance costs	9	**(17,975)**	(4,880)
Profit before tax		**294,886**	415,730
Income tax expense	10	**(80,494)**	(112,566)
Consolidated net profit of the Group for the year and total comprehensive income for the year	11	**214,392**	303,164
Consolidated net profit of the Group for the year and total comprehensive income for the year attributable to:			
Owners of the Company		**199,495**	303,164
Non-controlling interests		**14,897**	—
		214,392	303,164
Earnings per share	13		
— basic (RMB)		**0.25**	0.43
— diluted (RMB)		**0.25**	N/A

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	**2012 RMB'000**	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**1,375,046**	705,225
Prepaid land lease payments	16	**92,800**	—
Goodwill	27	**201**	—
Deposit paid for acquisition of property, plant and equipment		**—**	150
Accounts receivable due after one year	17	**109,463**	125,502
		1,577,510	830,877
CURRENT ASSETS			
Prepaid land lease payments	16	**2,410**	—
Accounts and other receivables	17	**910,867**	608,240
Pledged bank deposits	19	**76,017**	—
Bank balances and cash	19	**30,395**	125,788
		1,019,689	734,028
CURRENT LIABILITIES			
Accounts and other payables	20	**382,925**	138,158
Amounts due to directors	21	**7,732**	60,321
Tax payable		**97,573**	111,445
Bank borrowings	23	**434,000**	25,000
Other borrowings	23	**33,236**	—
		955,466	334,924
NET CURRENT ASSETS		**64,223**	399,104
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,641,733**	1,229,981

Consolidated Statement of Financial Position (Continued)

At 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CAPITAL AND RESERVES			
Share capital	24	**67,200**	67,200
Reserves		**1,389,148**	1,162,781
Equity attributable to owners of the Group		**1,456,348**	1,229,981
Non-controlling interests		**87,527**	—
TOTAL EQUITY		**1,543,875**	1,229,981
NON-CURRENT LIABILITIES			
Amounts due to non-controlling interests of a subsidiary	22	**76,002**	—
Deferred tax liabilities	25	**21,856**	—
		97,858	—
		1,641,733	1,229,981

The consolidated financial statements on pages 48 to 112 were approved and authorised for issue by the board of directors on 26 March 2013 and are signed on its behalf by:

LIU KAIJIN
Director

ZHOU SHUHUA
Director

Consolidated Statement of Changes In Equity

For the year ended 31 December 2012

	Attributable to owners of the Company								
	Share capital RMB'000	**Share premium** RMB'000	**Share option reserve** RMB'000	**PRC statutory reserve** RMB'000 *(note i)*	**Other reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total** RMB'000
At 1 January 2011 *(note ii)*	39,451	173,481	—	13,549	22	209,703	436,206	—	436,206
Profit and total comprehensive income for the year	—	—	—	—	—	303,164	303,164	—	303,164
Shares exchange between the Company and Power Wealth BVI *(note iii)*	8,265	(173,481)	—	—	165,216	—	—	—	—
Transfer of paid-in capital of PRC Operational Entity *(note iv)*	(39,316)	—	—	—	39,316	—	—	—	—
Issue of new shares through Global Offering *(note v)*	16,800	519,120	—	—	—	—	535,920	—	535,920
Transaction costs attributable to issue of new shares	—	(45,309)	—	—	—	—	(45,309)	—	(45,309)
Capitalisation Issue *(note vi)*	42,000	(42,000)	—	—	—	—	—	—	—
At 31 December 2011	67,200	431,811	—	13,549	204,554	512,867	1,229,981	—	1,229,981
Profit and total comprehensive income for the year	—	—	—	—	—	199,495	199,495	14,897	214,392
Dividend declared *(note 14)*	—	(12,960)	—	—	—	—	(12,960)	—	(12,960)
Recognition of equity-settled share-based payments *(note 35)*	—	—	9,156	—	—	—	9,156	—	9,156
Acquisition of a subsidiary *(note 27)*	—	—	—	—	30,676	—	30,676	72,630	103,306
At 31 December 2012	67,200	418,851	9,156	13,549	235,230	712,362	1,456,348	87,527	1,543,875

Notes:

(i) According to the rules and regulations in the People's Republic of China ("PRC"), a portion of the profit after taxation of the Company's PRC subsidiaries is required to be transferred to a PRC statutory reserve before distribution of a dividend to their equity owners. The transfer can cease when the balance of the reserve reaches 50% of the registered capital of the respective subsidiaries. The reserve can be applied either to set off accumulated losses or to increase capital.

(ii) The balance of share capital at 1 January 2011 represents the paid-in capital of the PRC Operational Entity (as defined in note 2) and the share capital of Power Wealth BVI (as defined in note 2).

(iii) On 19 April 2011, the Company (a) issued a total of 99,000,000 new shares of HK$0.10 each to Wangji Limited ("Wangji") in exchange of the entire share capital of Power Wealth BVI and (b) credited as fully paid at par the 1,000,000 nil-paid shares then held by Wangji. The excess of the share capital and share premium of Power Wealth BVI over the nominal value of the shares issued by the Company was credited to other reserve.

(iv) Upon completion of the Reorganisation (as defined in note 2), the paid-in capital of the PRC Operational Entity was transferred to other reserve.

(v) On 20 June 2011, the Company issued a total of 200,000,000 new shares of HK$0.10 each at an issue price of HK$3.19 per share pursuant to its prospectus dated 8 June 2011 (the "Global Offering"). The gross listing proceeds were HK$638,000,000 (approximately RMB535,920,000).

(vi) On 20 June 2011, the Company issued and allotted a total of 500,000,000 shares of HK$0.10 each to the shareholders whose names appeared on the Company's register of members on 24 May 2011 by capitalising an amount of HK$50,000,000 standing to the credit of the Company's share premium account which was created pursuant to the Global Offering (the "Capitalisation Issue").

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	**2012 RMB'000**	2011 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**294,886**	415,730
Adjustments for:			
Depreciation of property, plant and equipment		**56,209**	25,796
Amortisation of prepaid land lease payments		**1,205**	—
Gain on disposal of property, plant and equipment		**(46)**	—
Share-based payment expense		**9,156**	—
Finance costs		**17,975**	4,880
Interest income		**(19,586)**	(974)
Operating cash flows before movements in working capital		**359,799**	445,432
Increase in accounts and other receivables		**(160,748)**	(453,302)
Increase in accounts and other payables		**99,596**	11,846
Cash generated from operations		**298,647**	3,976
PRC income tax paid		**(95,514)**	(40,117)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**203,133**	(36,141)
INVESTING ACTIVITIES			
Interest received		**2,805**	974
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	27	**(17,092)**	—
Purchase of property, plant and equipment		**(384,382)**	(354,448)
Deposit paid for acquisition of property, plant and equipment		**—**	(150)
Additions of pledged bank deposits		**(73,017)**	—
Purchase of leasehold land		**(89,415)**	—
Proceeds from disposals of property, plant and equipment		**65**	—
NET CASH USED IN INVESTING ACTIVITIES		**(561,036)**	(353,624)
FINANCING ACTIVITIES			
Issue of ordinary shares		**—**	535,920
Transaction costs attributable to issue of new shares		**—**	(45,309)
New bank borrowings raised		**434,000**	215,900
Repayment of bank borrowings		**(82,995)**	(230,900)
New other borrowings raised		**1,158**	—
Advance from non-controlling interests of a subsidiary		**871**	—
Advance from a director		**334,391**	129,610
Repayment to directors		**(393,980)**	(97,308)
Dividend paid		**(12,960)**	—
Interest paid		**(17,975)**	(4,880)
NET CASH FROM FINANCING ACTIVITIES		**262,510**	503,033
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(95,393)**	113,268
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**125,788**	12,520
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**30,395**	125,788

1. General

The Company was incorporated as an exempted company with limited liability under the Companies Law of Cayman Islands. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its place of business in Hong Kong is located at Office 19, 36th Floor, China Merchants Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong. The shares of the Company ("Shares") have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 June 2011.

The Company acts as an investment holding company and the particulars of its subsidiaries are set out in note 37 to the consolidated financial statements.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. Reorganisation and Basis of Presentation of Consolidated Financial Statements

For the purpose of listing the Shares on the Stock Exchange in 2011, the entities in the Group underwent a series of reorganisation steps to rationalise the group structure (the "Reorganisation").

As part of the Reorganisation, 江蘇翔宇港建工程管理有限公司 Jiangsu Xiangyu Port Constructing Project Administration Co. Ltd.* ("Xiangyu PRC"), 江蘇興宇港建有限公司 Jiangsu Xingyu Port Construction Company Limited* ("PRC Operational Entity") and its respective equity participants, being Mr. Liu Kaijin ("Mr. Liu") and Ms. Zhou Shuhua ("Ms. Zhou") entered into a series of agreements (the "Contractual Arrangements") on 19 April 2011 with the following key provisions:

(i) Option Agreement

Xiangyu PRC, PRC Operational Entity, Mr. Liu and Ms. Zhou entered into an exclusive option agreement ("Option Agreement") whereby Mr. Liu and Ms. Zhou have irrevocably granted Xiangyu PRC an option to acquire, directly or through one or more nominees, the entire equity interest held by Mr. Liu and Ms. Zhou in PRC Operational Entity at a price ("Acquisition Cost") equivalent to the fair market value of such equity interest or, where applicable, the amount as permitted by the applicable PRC laws. The Acquisition Cost, when received, will be contributed by Mr. Liu and Ms. Zhou to Xiangyu PRC as capital surplus. Subject to the compliance with the PRC laws, Xiangyu PRC may exercise the option at any time, in respect of all or part of the equity interest of PRC Operational Entity and in any manner at its sole discretion.

* *for identification only*

2. Reorganisation and Basis of Presentation of Consolidated Financial Statements (Continued)

(i) Option Agreement (Continued)

Pursuant to the Option Agreement, each of PRC Operational Entity, Mr. Liu and/or Ms. Zhou has given undertakings that it shall perform certain acts or refrain from performing certain other acts unless with the prior written consent of Xiangyu PRC, including but not limited to the below matters:

(a) that PRC Operational Entity shall not alter its constitutional documents or its registered capital;

(b) that any of PRC Operational Entity, Mr. Liu and/or Ms. Zhou shall not incur any indebtedness or guarantee (other than those incurred in the ordinary course of business and disclosed to and approved by Xiangyu PRC in advance);

(c) that PRC Operational Entity shall not provide any loan or guarantee to any third parties;

(d) that PRC Operational Entity shall not dispose of or create encumbrances over any part of its assets, business or revenue and that Mr. Liu and Ms. Zhou shall not dispose of or create encumbrances over the equity interest held by them in PRC Operational Entity, except the security created under the Equity Pledge Agreement (as defined in (iv) below);

(e) that PRC Operational Entity shall not enter into any material contracts over certain amount other than those in its ordinary course of business;

(f) that PRC Operational Entity shall not distribute any dividend (including any undistributed attributable profit payable to the entity's shareholders prior to the Option Agreement becoming effective) to its shareholders and that Mr. Liu and Ms. Zhou undertake that such undistributed profit shall be retained in PRC Operational Entity as its capital and/or reserved fund and shall give up and assign or transfer to Xiangyu PRC any dividend declared and distributed thereafter and payable to them by virtue of their holding of the equity interest in PRC Operational Entity;

(g) that PRC Operational Entity shall not make investment or engage in any merger or acquisition transactions; and

(h) that at the request of Xiangyu PRC, Mr. Liu and Ms. Zhou shall appoint such persons nominated by Xiangyu PRC to act as the directors, supervisors and senior management members of PRC Operational Entity.

The Option Agreement became effective on 19 April 2011 and will expire on the date on which all the equity interests held by Mr. Liu and Ms. Zhou in PRC Operational Entity are transferred to Xiangyu PRC and/or its nominee(s).

2. Reorganisation and Basis of Presentation of Consolidated Financial Statements (Continued)

(ii) Proxy Agreement

Xiangyu PRC, PRC Operational Entity, Mr. Liu and Ms. Zhou entered into a proxy agreement ("Proxy Agreement") pursuant to which Mr. Liu and Ms. Zhou have unconditionally and irrevocably undertaken to authorise such person(s) as designated by Xiangyu PRC (being PRC citizens) to exercise the shareholders' rights in relation to appointment of proxy and exercise of voting rights in PRC Operational Entity under the articles of association of PRC Operational Entity and the applicable PRC laws. Such shareholders' rights include but not limited to (i) calling and attending the shareholders' meetings of PRC Operational Entity; (ii) exercising the voting rights on all matters requiring the consideration and approval of shareholders and those pursuant to articles of association of PRC Operational Entity.

Before Xiangyu PRC acquires the entire equity interests in PRC Operational Entity contemplated under the Option Agreement, Xiangyu PRC can exercise the voting rights of shareholders of PRC Operational Entity as if Xiangyu PRC and hence the Group was the ultimate beneficial owner of PRC Operational Entity by virtue of the Proxy Agreement.

The term of the Proxy Agreement commenced on 19 April 2011 and will expire on 18 April 2026, and will be renewable at the election of Xiangyu PRC for successive terms of 10 years each until termination by Xiangyu PRC with a 30-day prior notice to PRC Operational Entity.

(iii) Composite Services Agreement

Xiangyu PRC and PRC Operational Entity entered into an exclusive composite services agreement ("Composite Services Agreement") pursuant to which PRC Operational Entity will exclusively engage Xiangyu PRC to provide consultation and other ancillary services in enterprise management and consultancy services, dredging project management and consultancy services.

In consideration of the provision of the aforementioned services by Xiangyu PRC, PRC Operational Entity agrees to pay to Xiangyu PRC fees on an annual basis in arrears. Fees payable to Xiangyu PRC by PRC Operational Entity will be equivalent to the total audited revenue less all the related costs, expenses, taxes and statutory reserve of PRC Operational Entity. Xiangyu PRC reserves the right to identify the items of expenses to be included as related expenses when calculating the fees payable by PRC Operational Entity and is entitled to adjust the fee payable by PRC Operational Entity anytime based on the volume of service provided.

2. Reorganisation and Basis of Presentation of Consolidated Financial Statements (Continued)

(iii) Composite Services Agreement (Continued)

Pursuant to the Composite Services Agreement, PRC Operational Entity shall not without the prior written consent of Xiangyu PRC to dispose of or pledge its material assets, operation rights and/or business; alter its registered capital; alter its scope of business; declare dividends; and/or remove any of its directors and senior management members. Pursuant to the Composite Services Agreement, Xiangyu PRC is required to pay to PRC Operational Entity a surety amount of not less than HK$22,276,000 for the performance of its services provided to PRC Operational Entity under the Composite Services Agreement. As a security for the due payment of the consultation service fees and repayment of the surety money by PRC Operational Entity to Xiangyu PRC under the Composite Services Agreement, PRC Operational Entity has agreed to pledge its interest in the three vessels owned or (as the case may be) jointly-owned by it to Xiangyu PRC.

The term of the Composite Services Agreement commenced from 19 April 2011, and will expire on 18 April 2026, which will be renewable at the request of Xiangyu PRC for successive terms of 10 years each until termination by Xiangyu PRC with a 30-day prior written notice to PRC Operational Entity.

(iv) Equity Pledge Agreement

Xiangyu PRC, PRC Operational Entity, Mr. Liu and Ms. Zhou entered into an equity pledge agreement ("Equity Pledge Agreement"), pursuant to which Mr. Liu and Ms. Zhou granted a continuing first priority security interests over their respective equity interests in PRC Operational Entity to Xiangyu PRC for guaranteeing the performance of the Composite Services Agreement, the Option Agreement and the Proxy Agreement. Mr. Liu and Ms. Zhou are responsible to record the pledge of equity into the shareholders' register on the effective date of the Equity Pledge Agreement. PRC Operational Entity, Mr. Liu and Ms. Zhou are also responsible to register the pledge of equity in the State Administration for Industry and Commerce 10 days after the effective date of the Equity Pledge Agreement.

Pursuant to the Equity Pledge Agreement, without the prior written consent of Xiangyu PRC, PRC Operational Entity shall not alter its current shareholding structure and/or its nature or scope of business, Mr. Liu and Ms. Zhou shall not allow PRC Operational Entity to transfer or dispose of its assets or pledge or transfer their respective equity interests in PRC Operational Entity in favor of or to other third parties. Xiangyu PRC is entitled to receive all dividends derived from the pledged equity interests. Xiangyu PRC is entitled to demand repayment of the secured indebtedness and/or to exercise its rights to sell the pledged equity interests on occurrence of certain events of default including but not limited to non-performance or breach of any of the Composite Services Agreement, the Option Agreement and the Proxy Agreement; or failure to repay other debts when due by PRC Operational Entity, Mr. Liu or Ms. Zhou (as the case may be).

The Equity Pledge Agreement became effective from the date of its execution and shall terminate upon performance of all obligations under the Composite Services Agreement, the Option Agreement and the Proxy Agreement in full.

2. Reorganisation and Basis of Presentation of Consolidated Financial Statements (Continued)

(v) Vessel Pledge Agreements

PRC Operational Entity and Xiangyu PRC have entered into three vessel pledge agreements ("Vessel Pledge Agreements") dated 19 April 2011, pursuant to which PRC Operational Entity has pledged in favor of Xiangyu PRC (i) its entire interest in the dredger "Zhuayang No. 101"; (ii) its 50% interest in the dredger "Kaijin No. 1" and (iii) its 50% interest in the dredger "Kaijin No. 3" to Xiangyu PRC, as security for the due payment of the consultation service fees and repayment of the surety money (as well as related interest and expenses, etc.) then owing by PRC Operational Entity to Xiangyu PRC under the Composite Services Agreement.

Pursuant to the Vessel Pledge Agreements, without the prior written consent of Xiangyu PRC, PRC Operational Entity shall not pledge or dispose of its interests in the pledged vessels or any part thereof. Xiangyu PRC is entitled to exercise its rights to sell the pledged vessels on occurrence of certain events of default, including but not limited to the non-payment of the secured indebtedness or non-performance of the Composite Services Agreement.

The Vessel Pledge Agreements became effective from the date of its execution and shall terminate upon payment or repayment of the consultation service fees, surety money and all other related expenses under the Composite Services Agreement.

The directors of the Company ("Directors"), after consulting legal opinion, are of the view that the terms of the Contractual Arrangements have in substance enabled Xiangyu PRC to obtain control over, and benefit from the entire beneficial economic interests in, PRC Operational Entity despite the absence of formal legal equity interest therein.

Power Wealth Group (BVI) Limited ("Power Wealth BVI") was incorporated on 17 May 2010 and one ordinary share having a par value of US$1.00 each was allotted and issued to Mr. Liu on 18 June 2010. Xiangyu PRC was established on 11 June 2010 as a wholly owned subsidiary of Power Wealth Engineering Limited ("Power Wealth HK"). On 30 June 2010, Power Wealth BVI acquired from Mr. Liu 100,000 shares of HK$1.00 each in Power Wealth HK, representing its entire issued share capital, in consideration of and in exchange for which Power Wealth BVI allotted and issued, credited as fully paid, a total of 9,999 new shares of US$1.00 each in its capital to Mr. Liu. Accordingly, Power Wealth HK became the wholly owned subsidiary of Power Wealth BVI. Prior to the Reorganisation and on 18 August 2010, Mr. Liu transferred the entire issued share capital of Power Wealth BVI (being 10,000 ordinary shares of US$1.00 each) to Wangji, a company wholly owned by himself. On 18 September 2010, Power Wealth BVI, further issued and allotted 10,000 new shares of US$1.00 each at a cash consideration of RMB173,548,000 to Wangji to raise additional capital for the Group. Through a share exchange as part of the Reorganisation which was completed on 19 April 2011 by interspersing the Company between Power Wealth BVI and Wangji, the Company became the holding company of the companies comprising the Group on the same date.

2. Reorganisation and Basis of Presentation of Consolidated Financial Statements (Continued)

As PRC Operational Entity, Xiangyu PRC and other companies comprising the Group have been under common control of Mr. Liu since their respective establishment date, the Reorganisation including the execution of the Contractual Arrangements is considered as a business combination under common control. Accordingly, PRC Operational Entity is accounted for as a subsidiary of the Company throughout the periods presented on a merger basis. The assets, liabilities and results of PRC Operational Entity are included in the consolidated financial statements of the Group as if the Company had always been the parent of PRC Operational Entity.

The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows include the results and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the period presented or since their respective date of incorporation or establishment.

3. Going Concern Basis of Consolidated Financial Statements

As at 31 December 2012, the Group had net current assets of approximately RMB64 million, accounts receivables in an aggregate amount of approximately RMB286 million which were classified as current assets at 31 December 2012 in the consolidated statement of financial position may not be fully settled in the next twelve months after the end of the reporting period as a result of subsequent agreements entered with the relevant debtors for extension of payment term and settlement through exchange of assets (as set out in note 38).

In view of the above, the Directors have carefully assessed the Group's liquidity position having taken into account (i) the estimated operating cash inflows of the Group for the next twelve months from the end of the reporting period; (ii) all the bank borrowings as at 31 December 2012 were secured by the Group's assets and are therefore highly probable that they can be renewed in the coming year; and (iii) the Group's unutilised banking facilities of RMB240 million as at 31 December 2012.

On the basis of the above consideration, the Directors believe that the Group can satisfy its financial obligations in the foreseeable future and accordingly, the consolidated financial statements have been prepared on a going concern basis.

4. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

Amendments to HKAS 12	Deferred Tax — Recovery of Underlying Assets
Amendments to HKFRS 7	Financial Instruments — Disclosures: Transfers of Financial Assets

Expect as described below, the application of the above new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKFRS 7 "Financial Instruments — Disclosures: Transfers of Financial Assets"

The Group has applied for the first time the amendments to HKFRS 7 "Financial Instruments — Disclosures: Transfers of Financial Assets" in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred. The Group has arrangements with various suppliers to transfer its contractual rights to receive cash flows from certain bills receivable. The arrangements are made through endorsing those receivables to suppliers on a full recourse basis. Specifically, if the bills receivable is not paid at maturity, the suppliers have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to this bills receivable, it continues to recognise the full carrying amount of the receivables. The relevant disclosures have been made regarding the transfer of this bills receivable on application of the amendments to HKFRS 7 (see note 18). In accordance with the transitional provisions set out in the amendments to HKFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

4. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurements[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associate and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC)-Int 13 "Jointly Controlled Entities — Non-monetary Contributions by Venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation. The Directors anticipate that the adoption of HKFRS 11 may affect the classification of joint arrangement of the Group should such designation be made in the future. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Other than those disclosed above, the Directors anticipated that the application of the other new and revised HKFRSs will not have a material impact on the results and financial position of the Group.

5. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis and in accordance with the HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and by the Hong Kong Companies Ordinance. Historical cost is generally based on the fair value of the consideration given in exchange for goods. The significant accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

5. Significant Accounting Policies (Continued)

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is earlier.

5. Significant Accounting Policies (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units), that is expected to benefit from the synergies of the combination.

5. Significant Accounting Policies (Continued)

Goodwill (Continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

5. Significant Accounting Policies (Continued)

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings (classified as finance leases) used in the production or supply of service or administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for or a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment losses on tangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

5. Significant Accounting Policies (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid land lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

5. Significant Accounting Policies (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Forfeited contributions that are not vest fully, if any, may be used to reduce the existing level of contributions.

Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

5. Significant Accounting Policies (Continued)

Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled, or the asset is realised based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis for debt instruments.

5. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of loans and receivables below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as accounts and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of accounts and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an accounts and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

5. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including accounts and other payables, amounts due to Directors, amounts due to non-controlling interests and bank and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. Significant Accounting Policies (Continued)

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to eligible employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of number of underlying shares (subject of the options) that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are cancelled or lapsed after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Share options granted to eligible participants providing services to the Group

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the counterparties render services, unless the services qualify for recognition as assets.

6. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 5 to the consolidated financial statements, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are disclosed below.

6. Key Sources of Estimation Uncertainty (Continued)

Estimated allowance for accounts and other receivables

Management regularly reviews the recoverability of accounts and other receivables. Allowance for these receivables is made based on evaluation of collectability and on management's judgment by reference to the estimation of the future cash flows discounted at the original effective interest rate to calculate the present value. A considerable amount of judgment is required in assessing the ultimate realisation of these debtors, including their current creditworthiness. If the actual future cash flows are less than expected, additional allowance may be required. No allowance for accounts and other receivables were provided for both years.

Estimated useful life and residual values of property, plant and equipment

Dredgers and plant and machinery included in property, plant and equipment are depreciated over their useful lives. The assessment of estimated useful lives and residual values are matters of judgment based on the experience of the Group, taking into account factors such as technological progress, conditions of the dredgers and plant and machinery and changes in market demand. Useful lives and residual values are periodically reviewed for continued appropriateness. Due to the long lives of the dredgers and plant and machinery, changes to the estimates used can affect the amount of depreciation to be charged to profit or loss in each reporting period and consequently affect their carrying value at the end of the reporting period. There was no change in the estimated useful lives or residual values of property, plant and equipment for both years.

Estimated impairment of property, plant and equipment

Determining whether property, plant and equipment are impaired requires an estimation of the value in use of the cash-generating units to which property, plant and equipment have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. There was no impairment of property, plant and equipment for both years.

7. Revenue and Segment Information

The Group determines its operating segments based on the reports reviewed by the executive Directors who are also the chief operating decision makers that are used to make strategic decisions. No operating segments identified by the chief operating decision makes have been aggregated in arriving at the reportable segments of the Group.

The Group used to have three reportable segments. In 2012, the Group has introduced a new segment, Other Marine Business, as a result of expansion of business operations and of the acquisition of Jiangsu Jiaolong (as defined in note 27). Details of the Group's four reportable segments are as follows:

(i) Capital and Reclamation Dredging Business refers to the capital and reclamation dredging services and related consultation services provided by the Group.

(ii) Environmental Protection Dredging and Water Management Business refers to dredging or water management services or constructions for promoting environmental interests and water quality mainly for inland rivers provided by the Group.

(iii) Dredging Related Construction Business refers to ancillary construction work related to the capital and reclamation dredging services provided by the Group.

(iv) Other Marine Business mainly comprises marine hoisting, installation, salvaging and other engineering services provided by the Group.

7. Revenue and Segment Information (Continued)

Segment results

An analysis of the Group's reportable segment revenue and segment results is as below.

	Capital and Reclamation Dredging Business RMB'000	Environmental Protection Dredging and Water Management Business RMB'000	Dredging Related Construction Business RMB'000	Other Marine Business RMB'000	Total RMB'000
For the year ended 31 December 2012					
Segment revenue	**533,715**	**223,827**	**74,167**	**134,318**	**966,027**
Segment results	**193,673**	**70,503**	**7,642**	**43,065**	**314,883**
Other income					**35,386**
Unallocated corporate expenses					**(41,637)**
Finance costs					**(13,746)**
Group's profit before tax					**294,886**
Other information:					
Depreciation of property, plant and equipment	**33,410**	**4,750**	**2,185**	**15,864**	**56,209**
For the year ended 31 December 2011					
Segment revenue	930,378	206,925	—	—	1,137,303
Segment results	401,562	26,981	—	—	428,543
Other income					44,088
Unallocated corporate expenses					(40,235)
Listing expenses					(11,786)
Finance costs					(4,880)
Group's profit before tax					415,730
Other information:					
Depreciation of property, plant and equipment	24,575	1,221	—	—	25,796

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 5 to the consolidated financial statements. Segment results, other than those derived from Other Marine Business, represent the gross profit earned by each segment without allocation of central administrative expenses, marketing and promotion expenses, listing expenses, other income and finance costs. For Other Marine Business, the segment result represents profit before tax earned by that segment. This is the measure reported to the Company's executive Directors for the purposes of resource allocation and performance assessment.

7. Revenue and Segment Information (Continued)

Segment assets

	Capital and Reclamation Dredging Business RMB'000	Environmental Protection Dredging and Water Management Business RMB'000	Dredging Related Construction Business RMB'000	Other Marine Business RMB'000	Total RMB'000
At 31 December 2012					
Segment assets	**1,513,250**	**402,654**	**16,857**	**458,754**	**2,391,515**
Unallocated assets:					
Prepaid land lease payments					**95,210**
Pledged bank deposits					**76,017**
Bank balances and cash					**30,395**
Other unallocated assets					**4,062**
Consolidated assets					**2,597,199**
At 31 December 2011					
Segment assets	1,264,344	169,320	—	—	1,433,664
Unallocated assets:					
Bank balances and cash					125,788
Other unallocated assets					5,453
Consolidated assets					1,564,905

For the purposes of monitoring segment performances and allocating resources between segments, assets are allocated to reportable and operating segments other than certain property, plant and equipment, prepaid land lease payments, certain other receivables, pledged bank deposits and bank balances and cash.

Segment liabilities

As the liabilities are regularly reviewed by the chief operating decision makers in total for the Group as a whole, the measure of total liabilities by operating segment is therefore not presented.

Geographical information

As all the Group's revenue is derived from its operation in the PRC and substantially all its assets (other than bank balances of approximately RMB569,000 as at 31 December 2012 (2011: RMB12 million) which were located in Hong Kong) and liabilities are located in the PRC, no geographical information is presented.

7. Revenue and Segment Information (Continued)

Information about major customers

An analysis of revenue from customers contributing to over 10% of the Group's total revenue for the year is as follows:

	2012 RMB'000	2011 RMB'000
Customer A *(note)*		
— Capital and Reclamation Dredging Business	**325,205**	N/A
Customer B *(note)*		
— Capital and Reclamation Dredging Business	**N/A**	307,279
Customer C *(note)*		
— Capital and Reclamation Dredging Business	**N/A**	488,522
Customer D		
— Environmental Protection Dredging and Water Management Business	**141,252**	206,925

Note: Customer B and Customer C did not contribute over 10% of the Group's total revenue for the year ended 31 December 2012. Customer A was not a customer of the Group for the year ended 31 December 2011.

8. Other Income

	2012 RMB'000	2011 RMB'000
Government financial incentive *(note)*	**17,105**	43,100
Bank interest income	**2,805**	974
Interest income in respect of non-current accounts receivable	**16,781**	—
Gain on disposal of property, plant and equipment	**46**	—
Sundry income	**647**	14
	37,384	44,088

8. Other Income (Continued)

Note: Pursuant to a document issued by a PRC local government authority, one of the Company's PRC subsidiaries was to be granted financial incentive for a period of three years for its contribution to the economic development of the locality, provided it is duly registered in the locality and pays taxes according to tax laws. No other conditions are attached to the financial incentive.

In 2011, the PRC local government authority confirmed that the amount of such financial incentive the Group was entitled up to 31 December 2011 was RMB43,100,000. Accordingly, the Group has recognised such amount as other income for the year ended 31 December 2011.

Pursuant to a further document issued by the PRC local government authority in 2012, the Company's PRC subsidiary was eligible for the grant of the financial incentive for an extra of three years, provided it is duly registered in the locality and pays taxes according to tax laws.

In 2012, the PRC local government authority further confirmed that the amount of such financial incentive that the Group was entitled for the year ended 31 December 2012 was RMB17,105,000. Accordingly, the Group recognised such amount as other income for the year ended 31 December 2012.

9. Finance Costs

	2012 RMB'000	2011 RMB'000
Interest expense on:		
Bank borrowings wholly repayable within five years	**16,597**	3,397
Discounted bills receivable	**647**	1,483
Other borrowings	**731**	—
	17,975	4,880

10. Income Tax Expense

	2012 RMB'000	2011 RMB'000
The charge comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	**82,314**	112,566
Deferred taxation *(note 25)*	**(1,820)**	—
	80,494	112,566

10. Income Tax Expense (Continued)

The tax charge for the year can be reconciled to the profit before tax as follows:

	2012 RMB'000	2011 RMB'000
Profit before tax	**294,886**	415,730
Tax at the PRC EIT rate of 25% (2011: 25%)	**73,722**	103,933
Tax effect of expenses not deductible for tax purpose	**6,772**	8,633
Tax charge for the year	**80,494**	112,566

(i) PRC EIT

PRC EIT is calculated at 25% of the assessable profits for both years.

(ii) Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years, if any.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profits arising in or derived from Hong Kong for both years.

11. Profit for the Year

	2012 RMB'000	2011 RMB'000
Profit for the year has been arrived at after charging:		
Auditor's remuneration	**2,430**	3,240
Depreciation of property, plant and equipment	**56,209**	25,796
Amortisation of prepaid land lease payments	**1,205**	—
Net foreign exchange losses *(note)*	**164**	10,409
Directors' emoluments *(note 12)*	**6,595**	4,871
Share-based payment expense *(note 35)*	**9,156**	—
Other staff costs	**37,856**	19,653
Retirement benefit scheme contributions, excluding those of Directors	**2,070**	568
Total staff costs	**55,677**	25,092
Sub-contracting charges included in operating cost	**330,178**	188,575

Note: The net foreign exchange loss for the year ended 31 December 2011 was mainly attributable to the translation of listing proceeds which were denominated in Hong Kong dollars.

12. Directors', Chief Executive's and Employees' Emoluments

Directors and Chief Executive

Details of the emoluments paid or payable to the Directors and the Chief Executive during the year are as follows:

For the year ended 31 December 2012

	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefit scheme contribution RMB'000	Total RMB'000
Executive Directors:				
Mr. Liu *(note)*	3,783	—	—	3,783
Ms. Zhou	1,701	—	—	1,701
	5,484	—	—	5,484
Non-executive Directors:				
Mr. Liu Longhua (appointed on 25 April 2012)	—	—	—	—
Mr. Dong Li Yong (resigned on 25 April 2012)	647	—	—	647
	647	—	—	647
Independent non-executive Directors:				
Ms. Leung Mei Han	199	—	—	199
Mr. Zhang Jun (retired on 15 May 2012)	—	—	—	—
Ms. Peng Cuihong	150	—	—	150
Mr. Huan Xuedong (appointed on 25 April 2012)	102	—	—	102
Mr. Chan Ming Sun Jonathan (appointed on 30 November 2012)	13	—	—	13
	464	—	—	464
	6,595	—	—	6,595

12. Directors', Chief Executive's and Employees' Emoluments (Continued)

For the year ended 31 December 2011

	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefit scheme contribution RMB'000	Total RMB'000
Executive Directors:				
Mr. Liu *(note)*	2,228	19	6	2,253
Ms. Zhou	1,013	—	—	1,013
	3,241	19	6	3,266
Non-executive Director:				
Mr. Dong Li Yong	1,400	—	—	1,400
Independent non-executive Directors:				
Ms. Leung Mei Han	117	—	—	117
Mr. Zhang Jun	—	—	—	—
Ms. Peng Cuihong	88	—	—	88
	205	—	—	205
	4,846	19	6	4,871

Note: Mr. Liu is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

The Directors' and Chief Executive's emoluments of the Company had been determined by the board of Directors with advises from the remuneration committee of the Company.

12. Directors', Chief Executive's and Employees' Emoluments (Continued)

Employees

Of the Group's five highest paid individuals during the year, two (2011: three) of them were Directors and Chief Executive whose emoluments are presented above. The emoluments of the remaining highest paid individuals, were as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other allowances	**720**	1,697
Retirement benefit scheme contributions	**19**	10
Share-based payments	**3,248**	—
	3,987	1,707

Their emoluments were within the following bands:

	2012 No. of employees	2011 No. of employees
Nil to HK$1,000,000	**—**	1
HK$1,000,001 to HK$1,500,000	**—**	1
HK$1,500,001 to HK$2,000,000	**3**	—

During both years, no emoluments were paid by the Group to any of the Directors, Chief Executive or the five highest paid individuals (including Directors, Chief Executive and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. Other than Mr. Zhang Jun who waived his emoluments for the year ended 31 December 2012 of approximately RMB56,000 in total (2011: RMB88,000), none of the Directors waived any emoluments during both years.

13. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2012 RMB'000	2011 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**199,495**	303,164
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**800,000**	706,849
Effect of dilutive potential ordinary shares:		
Options	**173**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**800,173**	706,849

The weighted average number of Shares for the purpose of basic earnings per share for the year ended 31 December 2012 is calculated based on the number of Shares in issue during the year. The weighted average number of Shares for the year ended 31 December 2011 has been adjusted for (i) the weighted average for the year ended 31 December 2011 effect of capital injection by Mr. Liu to the companies comprising the Group prior to the Reorganisation; and (ii) the effect of the Capitalisation Issue.

14. Dividends

	2012 RMB'000	2011 RMB'000
Dividends recognised as distribution during the year:		
2012 Interim dividend of HK2 cents per Share (2011: nil)	**12,960**	—

The Directors do not recommend the payment of a final dividend for the years 2011 and 2012.

15. Property, Plant and Equipment

	Leasehold land and building RMB'000	Leasehold improvements RMB'000	Vessels and dredgers RMB'000	Plant and machinery RMB'000	Furniture, fittings and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1 January 2011	4,221	—	370,316	14,781	140	4,479	—	393,937
Additions	—	244	342,183	11,014	278	745	257	354,721
At 31 December 2011 and 1 January 2012	4,221	244	712,499	25,795	418	5,224	257	748,658
Acquisition of a subsidiary *(note 27)*	3,637	—	254,035	3,164	386	2,034	63,970	327,226
Additions	—	—	304,877	8,472	331	2,714	82,429	398,823
Transfers	—	—	139,310	7,346	—	—	(146,656)	—
Disposals	—	—	—	—	—	(380)	—	(380)
At 31 December 2012	7,858	244	1,410,721	44,777	1,135	9,592	—	1,474,327
ACCUMULATED DEPRECIATION								
At 1 January 2011	269	—	12,288	3,463	48	1,569	—	17,637
Provided for the year	76	131	23,363	1,211	67	948	—	25,796
At 31 December 2011 and 1 January 2012	345	131	35,651	4,674	115	2,517	—	43,433
Provided for the year	242	113	50,424	3,305	330	1,795	—	56,209
Eliminated on disposals	—	—	—	—	—	(361)	—	(361)
At 31 December 2012	587	244	86,075	7,979	445	3,951	—	99,281
CARRYING VALUE								
At 31 December 2012	7,271	—	1,324,646	36,798	690	5,641	—	1,375,046
At 31 December 2011	3,876	113	676,848	21,121	303	2,707	257	705,225

15. Property, Plant and Equipment (Continued)

As the lease payments relating to the leasehold property cannot be allocated reliably between the land and building elements, the entire leasehold property is accounted for as property, plant and equipment.

The Group's leasehold land and building is held under a medium term lease in Hong Kong.

Depreciation is charged so as to write off the cost of assets (other than construction in progress), over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, on the following bases:

Leasehold land and building	2–4% or over the term of the lease, whichever is shorter
Leasehold improvements	20% or over the term of the lease, whichever is shorter
Vessels and dredgers	5%–6.7%
Plant and machinery	6.7%
Furniture, fittings and office equipment	10%–20%
Motor vehicles	10%–20%

16. Prepaid Land Lease Payments

	2012 RMB'000	2011 RMB'000
Analysed for reporting purposes as:		
Current assets	**2,410**	—
Non-current assets	**92,800**	—
	95,210	—

The prepaid land lease payments consist of cost of land use rights in respect of land located in the PRC held under medium term lease.

17. Accounts and Other Receivables

	2012 RMB'000	2011 RMB'000
Accounts receivables:		
Non-current	**109,463**	125,502
Current	**860,041**	551,174
Less: Allowance on accounts receivables	**—**	—
	969,504	676,676
Bills receivable	**16,650**	—
Deposits, prepayments and other receivables:		
Government financial incentive receivables *(note 8)*	**17,105**	43,100
Deposits and prepayments	**13,131**	8,573
Retention receivables	**2,206**	109
Rental receivables	**—**	300
Rental deposits for chartered dredgers with short term leases	**—**	2,053
Others	**1,734**	2,931
	34,176	57,066
	1,020,330	733,742
Presented as:		
Accounts receivable due after one year	**109,463**	125,502
Accounts and other receivables due within one year	**910,867**	608,240
	1,020,330	733,742

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits based on reputation of the customers within the industry.

Long-term receivable represents amount due from a customer for contracts on certain construction works which are repayable over one year from the respective reporting dates. As at 31 December 2012, long-term receivable totalling RMB109,463,000 (2011: RMB125,502,000) was recognised according to the specific repayment terms in the contract. Interest is charged in respect of such non-current accounts receivable balance at a rate of 10% per annum. During the year, interest income of about RMB16,781,000 (2011: nil) was recognised.

17. Accounts and Other Receivables (Continued)

The Group prepares an aged analysis for its accounts receivables based on the dates when the Group and the customers agreed on the quantum of the services provided, as evidenced by progress certificates. Periodic statements are issued and agreed by the customers for the work performed and services rendered for the customers. Most of the contracts require the customers to make monthly progress payments with reference to the value of work completed (typically 70% to 80% of the value of work completed in the previous month) within thirty days after the issuance of the progress certificate. According to these contracts, the remaining balance (20% to 30% of the value of work completed) is to be paid by the customers within thirty to sixty days after the project is completed and accepted the customers receive payment from the project owners.

The aged analysis of the Group's accounts receivables (net of allowance on accounts receivables) at the end of each reporting period is as follows:

	2012 RMB'000	2011 RMB'000
Aged analysis of the Group's accounts receivables:		
0–30 days	**178,617**	227,560
31–60 days	**74,380**	54,303
61–90 days	**64,669**	56,583
91–180 days	**109,332**	236,719
Over 180 days	**542,506**	101,511
	969,504	676,676

The aged analysis of the Group's bills receivable at the end of each reporting period is as follows:

	2012 RMB'000	2011 RMB'000
Aged analysis of the Group's bills receivable:		
0–30 days	**5,000**	—
31–60 days	**800**	—
61–90 days	**5,200**	—
91–180 days	**5,650**	—
	16,650	—

17. Accounts and Other Receivables (Continued)

Aged analysis of the Group's bills receivable (Continued)

Retention receivables represent balance of accounts receivables retained by customers during the maintenance period which is normally less than one year from the completion of provision of services. The Group prepares an aged analysis for its retention receivables based on the date of the last monthly progress certificate of the project. The aged analysis of the Group's retention receivables at the end of each reporting period is as follows:

	2012 RMB'000	2011 RMB'000
Aged analysis of the Group's retention receivables:		
0–30 days	**1,072**	—
31–60 days	**269**	—
61–90 days	**—**	—
91–180 days	**756**	—
Over 180 days	**109**	109
	2,206	109

The amount of accounts receivables which were past due as at the end of the reporting period but for which the Group has not provided for impairment loss is analysed as follows:

	2012 RMB'000	2011 RMB'000
Aging of accounts receivables which were past due but not impaired:		
0–30 days	**69,812**	43,195
31–60 days	**61,185**	50,732
61–90 days	**20,832**	88,132
91–180 days	**36,071**	179,835
Over 180 days	**325,254**	54,352
	513,154	416,246

The Group does not hold any collateral over the above balances, but the management considers that no impairment loss needs to be recognised in view of the financial background of these customers and their historical and subsequent repayments. In reaching this conclusion, the Directors have also taken into account the transaction as set out in note 38 to the consolidated financial statements. No allowance for doubtful debts was recognised by the Group during the year ended 31 December 2011 and 2012.

18. Transfers of Financial Assets

The following were the Group's bills receivable as at 31 December 2012 that were transferred to suppliers on a full recourse basis.

	RMB'000
Carrying amount of bills receivable transferred	3,050
Carrying amount of associated liabilities	(3,050)
Net position	—

The Group endorsed bills receivable to suppliers to exchange for goods from these suppliers on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to this bills receivable, it continues to recognise the full carrying amount of the bills receivable, and has recognised the associated accounts payables for the goods received from the suppliers. This bills receivable is carried at amortised cost in the Group's consolidated statement of financial position.

19. Bank Balances and Cash and Pledged Bank Deposits

Bank balances and cash of the Group comprise cash and short-term bank deposits with an original maturity of three months or less. At the end of the reporting period, the bank balances carry interest at market rates which range from 0.01% to 3.08% (2011: 0.01% to 0.44%) per annum.

Pledged bank deposits represent deposits pledged to banks to secure short-term banking facilities granted to the Group in respect of bills payable and are therefore classified as current assets. At the end of the reporting period, the deposits carry fixed interest rate ranging from 2.80% to 3.20% (2011: nil) per annum. The pledged bank deposits will be released upon the settlement of bills payable.

Bank balances that are denominated in a currency other than the functional currency of the relevant group companies are set out below:

	2012 RMB'000	2011 RMB'000
United States Dollar ("US$")	16	2,381
Hong Kong Dollar ("HK$")	569	11,572

20. Accounts and Other Payables

	2012 RMB'000	2011 RMB'000
Accounts payables:		
Subcontracting charge	**145,891**	35,714
Chartering cost	**2,120**	15,741
Fuel cost	**30,589**	9,244
Repair and maintenance	**16,862**	19,998
Others	**19,030**	—
	214,492	80,697
Bills payable	**84,000**	—
Other payables:		
Accrual other taxes	**52,038**	47,903
Accrual staff salaries and welfare	**19,379**	—
Provision for repair and maintenance of dredgers	**—**	3,100
Receipts in advance	**3,493**	2,467
Others	**9,523**	3,991
	84,433	57,461
	382,925	138,158

The aged analysis of the Group's accounts payables presented based on the invoice date as at the end of each reporting period is as follows:

	2012 RMB'000	2011 RMB'000
0–30 days	**158,787**	6,611
31–60 days	**13,930**	31,049
61–90 days	**9,056**	5,634
91–180 days	**4,806**	8,294
Over 180 days	**27,913**	29,109
	214,492	80,697

21. Amounts Due to Directors

As at 31 December 2012, the balance represented emolument payable to certain Directors of approximately RMB1,050,000 and an amount due to Mr. Liu of approximately RMB6,682,000. All amounts are unsecured, interest-free, repayable on demand and non-trade in nature.

As at 31 December 2011, the balance represented emolument payable to a Director of approximately RMB88,000 and amounts due to Mr. Liu of approximately RMB60,233,000. All amounts are unsecured, interest-free, repayable on demand and non-trade in nature.

22. Amounts Due to Non-controlling Interests of a Subsidiary

Included in the balance was an amount of RMB17,711,000 which is the remaining consideration payable to Vendor Shareholders (as defined in note 27). All balance is non-interest bearing except for an amount of approximately RMB1,367,000 which is interest bearing at 7.50% per annum (2011: nil). On 31 December 2012, all the non-controlling interests agreed not to demand repayment of the amounts due to them before April 2014. All amounts are unsecured and non-trade in nature.

23. Bank and Other Borrowings

	2012 RMB'000	2011 RMB'000
Secured bank borrowings repayable within one year	**434,000**	25,000
Unsecured other borrowings repayable within one year	**33,236**	—
	467,236	25,000

23. Bank and Other Borrowings (Continued)

The Group's bank borrowings carried fixed interest rate for the year ended 31 December 2012 (2011: variable interest rate and fixed interest rate) with reference to the benchmark borrowing rate of The People's Bank of China ("Benchmark Rate") or Benchmark Rate plus certain basis points. At the end of the reporting period, the effective interest rates of the bank borrowings (which are also equal to contracted interest rates) were as follows:

	2012	2011
Effective interest rate (per annum)	**6.00%–8.53%**	6.61%–7.22%
Term of interest rate	**Fixed interest rate**	Fixed interest rate and Benchmark Rate or Benchmark Rate plus 10%

Included in the Group's other borrowings, approximately RMB10,006,000 carried fixed interest rates ranging from 6.32% to 7.50% per annum (2011: nil). Other than that, the remaining other borrowings are interest-free. All the Group's other borrowings are unsecured and repayable on demand.

At 31 December 2012, the Group's bank borrowings were supported by the corporate guarantees given by Xiangyu PRC and the Company. The Group's bank borrowings to the extent of RMB427,000,000 and RMB7,000,000 were secured by certain assets of the Group (note 30) and by two properties owned by certain of the Group's non-controlling interests and personal guarantees provided by Mr. Liu and Ms. Zhou respectively (note 32(ii)).

At 31 December 2011, the Group's bank borrowings were supported by the corporate guarantee given by Xiangyu PRC (see note 32(ii)).

24. Share Capital/Paid-in Capital

	Notes	**Number of shares** '000	**Amount** HK$'000	**RMB equivalent amount** RMB'000
Ordinary Shares of HK$0.10 each				
Authorised:				
On incorporation of the Company	(i)	2,000	200	N/A
Increase on 19 April 2011	(ii)	9,998,000	999,800	N/A
Balance at 31 December 2011 and 2012		10,000,000	1,000,000	N/A
Issued and fully paid:				
Issued on incorporation of the Company and balance at 1 January 2011	(i)	1,000	—	—
Issued pursuant to the Reorganisation	(iii)	99,000	9,900	8,316
Paid up the nil-paid shares previously issued	(iii)	—	100	84
Global Offering	(iv)	200,000	20,000	16,800
Capitalisation Issue	(v)	500,000	50,000	42,000
Balance at 31 December 2011 and 2012		800,000	80,000	67,200

Notes:

(i) The Company was incorporated on 31 May 2010 with an authorised share capital of HK$200,000 divided into 2,000,000 Shares of HK$0.10 each. On the date of incorporation, a total of 1,000,000 Shares of HK$0.10 each were issued and nil-paid.

(ii) Pursuant to a resolution passed by the then sole shareholder of the Company on 19 April 2011, the authorised share capital of the Company was increased from HK$200,000 to HK$1,000 million by the creation of 9,998,000,000 new Shares of HK$0.10 each in the Company.

(iii) On 19 April 2011, in exchange for the entire issued share capital of Power Wealth BVI, the Company (a) allotted and issued, credited as fully paid, 99,000,000 Shares of HK$0.10 each to Wangji, and (b) credited as fully paid at par the 1,000,000 nil-paid Shares then held by Wangji.

(iv) On 20 June 2011, the Company issued a total of 200,000,000 new Shares of HK$0.10 each at an issue price of HK$3.19 per Share pursuant to its prospectus dated 8 June 2011. The gross listing proceeds were HK$638,000,000 (approximately RMB535,920,000).

(v) On 20 June 2011, the Company issued and allotted a total of 500,000,000 Shares of HK$0.10 each to the shareholders whose names appeared on the Company's register of members on 24 May 2011 by capitalising an amount of HK$50,000,000 standing to the credit of the Company's share premium account which was created pursuant to the Global Offering.

25. Deferred Tax Liabilities

The following is the major deferred tax liabilities recognised and movements thereon during the current and prior year:

	Arising on restatement of property, plant and equipment to fair value RMB'000
At 1 January 2011, 31 December 2011 and 1 January 2012	—
On acquisition of a subsidiary *(note 27)*	23,676
Charge to profit or loss *(note 10)*	(1,820)
At 31 December 2012	21,856

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was RMB248,027,000 (2011: RMB334,904,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

26. Major Non-cash Transactions

During the year ended 31 December 2012, deposits of RMB150,000 were transferred to property, plant and equipment. In addition, approximately RMB7,000,000 prepaid land lease payments was settled by a Director on behalf of the Group.

During the year ended 31 December 2011, deposits of RMB273,000 were transferred to property, plant and equipment. In addition, approximately RMB1,366,000 other payables and approximately RMB189,000 tax payable were settled by a Director on behalf of the Group.

27. Acquisition of a Subsidiary

On 20 February 2012, the Group completed its acquisition of a 51% equity interest in 江蘇蛟龍打撈航務工程有限公司 Jiangsu Jiaolong Salvage Harbour Engineering Co. Ltd.* ("Jiangsu Jiaolong") (the "Acquisition") with details in note (i) below. The Group is entitled to share 55% of the profits of Jiangsu Jiaolong up to 31 December 2014 and 51% thereafter. Jiangsu Jiaolong is principally engaged in the business of provision of marine hoisting, installation, salvaging and other engineering services. The Acquisition will enable the Group to continue broadening its income base. The Acquisition has been accounted for using the acquisition method. Further details of the Acquisition as at the completion date, including considerations paid or payable, assets acquired, liabilities recognised and goodwill arising, are set out below:

	Notes	**RMB'000**
Consideration transferred	(i)	
Cash consideration paid upon completion		9,789
Consideration payable to Vendor Shareholders (defined below)		17,711
Subscription consideration (to be paid by the Group)		80,224
		107,724
Net assets acquired		
Fair value of assets acquired and liabilities recognised at the date of acquisition are as follows:		
Property, plant and equipment *(note 15)*		327,226
Accounts and other receivables	(ii)	28,835
Pledged bank deposits		3,000
Bank overdraft		(7,303)
Tax recoverable		672
Accounts and other payables		(40,656)
Deferred tax liabilities *(note 25)*		(23,676)
Amounts due to non-controlling interests		(57,420)
Amount due to the PRC Operational Entity (as prepaid consideration)		(10,000)
Other borrowings		(32,078)
Bank borrowings		(57,995)
		130,605
Subscription consideration (to be paid by the Group)		80,224
		210,829
Less: Non-controlling interests	(iii)	(103,306)
Net assets acquired		107,523
Goodwill arising on Acquisition	(iv)	201

Net cash outflow arising on Acquisition:	RMB'000
Cash consideration paid	9,789
Add: Bank overdraft	7,303
	17,092

* *For identification only*

27. Acquisition of a Subsidiary (Continued)

Notes:

(i) The Group acquired 51% equity interest in Jiangsu Jiaolong by means of (i) acquisition of 11% equity interest from the existing equity owners who were then independent third parties to the Group, (the "Vendor Shareholders") for a consideration of RMB27,500,000 (the "Existing Equity Consideration") and (ii) subscription for 40% equity interest in the registered capital (as enlarged) in Jiangsu Jiaolong for a consideration of RMB84,521,000 (the "Subscription Consideration"), the present value of which at date of completion of the Acquisition amounted to RMB80,224,000.

Upon completion, the Existing Equity Consideration was partially settled to the extent of RMB9,789,000 and the remaining consideration payable to Vendor Shareholders of RMB17,711,000 was included in amounts due to non-controlling interests of a subsidiary as at 31 December 2012.

No interest is charged on the Subscription Consideration. An amount of RMB56,402,000 of the Subscription Consideration was settled prior to 31 December 2012 and an amount of RMB9,769,000 that was due to be settled by 31 December 2012 remained unsettled as at that date and is expected to be settled in 2013 and was not discounted due to insignificant impact. The balance of the Subscription Consideration has been accounted for as deferred consideration and discounted to its net present value at RMB14,053,000 using a discount rate of 12% per annum in accordance with the agreed timing of the cash flows as set out in the agreement.

(ii) The gross contractual amounts of the accounts and other receivables were RMB33,778,000 while their fair value was RMB28,835,000.

(iii) The non-controlling interests were initially measured at the non-controlling interests' proportionate share of the fair value of identifiable net assets acquired on the date of acquisition to the extent that the subscription consideration was actually paid.

(iv) Goodwill arose in the Acquisition because the consideration paid for the combination effectively included benefits in relation to future market development and the assembled workforce of Jiangsu Jiaolong. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on the Acquisition is expected to be deductible for tax purposes.

(v) Pursuant to the agreements, including their supplements, for the Acquisition, the Group is entitled to share 55% of the profit after taxation of Jiangsu Jiaolong on the basis that the profit after taxation of Jiangsu Jiaolong will not be less than RMB40 million, RMB42 million and RMB45 million for each of the years ending 31 December 2012, 2013 and 2014, respectively (the "Guaranteed Profit(s)"). Should the actual profit of Jiangsu Jiaolong be less than the Guaranteed Profit in any relevant year, the Vendor Shareholders will compensate the Group for the shortfall (the "Profit Shortfall").

In the opinion of the Directors, after considering the actual results of Jiangsu Jiaolong as at 31 December 2012 and based on a review of the profit projection of Jiangsu Jiaolong, the Directors have concluded that the fair value of the Profit Shortfall is considered as insignificant at the date of the Acquisition and as at 31 December 2012 because the chance that the Vendor Shareholders will need to compensate the Group due to actual profit being less than the Guaranteed Profit is very low.

(vi) Included in the profit after taxation for the year ended 31 December 2012 is profit of RMB33,103,000 attributable to the additional business generated by Jiangsu Jiaolong. Revenue for the year ended 31 December 2012 includes RMB134,318,000 generated from Jiangsu Jiaolong. Had the Acquisition been completed on 1 January 2012, total group revenue for the year ended 31 December 2012 would have been RMB1,008,253,000 and profit for the same period would have been RMB233,158,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the Acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

28. Operating Leases

The Group as lessee

(i) Minimum lease payments paid

	2012 RMB'000	2011 RMB'000
Minimum lease payments paid under operating leases during the year:		
Chartered dredgers	**3,515**	268,182
Office premises	**1,169**	937
Transportation vessels	**340**	2,013
	5,024	271,132

(ii) Minimum lease payment commitments

At the end of the reporting period, the Group was committed to make the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

(a) Chartered dredgers

	2012 RMB'000	2011 RMB'000
Within one year	**1,320**	—
In the second to fifth years, inclusive	**1,320**	—
	2,640	—

The leases for chartered dredgers are generally negotiated for a term of three years with fixed rental.

28. Operating Leases (Continued)

The Group as lessee (Continued)

(ii) Minimum lease payment commitments (Continued)

(b) Office premises

	2012 RMB'000	2011 RMB'000
Within one year	**1,231**	633
In the second to fifth years, inclusive	**1,128**	122
Over five years	**122**	306
	2,481	1,061

The leases for office premises are generally negotiated for a term between one to ten years.

The Group as lessor

Rental income from chartered vessels earned during the year was RMB15,228,000 (2011: nil). The chartered vessels are expected to generate annualised rental yields of 33% (2011: nil). The chartered vessels have committed tenants for the next one to two years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2012 RMB'000	2011 RMB'000
Within one year	**7,892**	—
In the second to fifth years, inclusive	**1,512**	—
	9,404	—

29. Capital Commitments

	2012 RMB'000	2011 RMB'000
Capital commitments contracted but not provided for relating to the followings:		
Investment in a non-wholly owned subsidiary *(note)*	**39,000**	—
Acquisition of Jiangsu Jiaolong	**—**	127,500
Acquisition of vessel	**—**	400
	39,000	127,900

Note: Pursuant to the Company's announcement dated 21 October 2012, the Group has entered into a legally binding framework agreement with a PRC Company ("PRC Company"). Pursuant to the agreement, the Group and the PRC Company agreed to take steps to jointly incorporate a new enterprise in Hunan Province, the PRC, for securing the projects of environmental management and construction of infrastructure to be carried out in the Qingshui Lake area, which is expected to last for above five years. The total project value of the Qingshui Lake Projects is expected to be approximately RMB2 billion.

As at the date that these consolidated financial statements are approved by the Directors, the above transactions have not been completed.

30. Pledge of Assets

At the end of the reporting period, the following assets of the Group were pledged to secure bank borrowings and credit facilities granted to the Group during the year:

	2012 RMB'000	2011 RMB'000
Dredgers included in property, plant and equipment	**758,579**	—
Prepaid land lease payments	**95,210**	—
Pledged bank deposits	**76,017**	—
	929,806	—

31. Retirement Benefit Plans

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the local government in the PRC. The Group is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the scheme is to make the specified contributions according to the state rules.

32. Related Party Disclosures

(i) Related party transactions

During the year, the Group paid rentals of RMB91,000 (2011: RMB91,000) to certain companies controlled by Mr. Liu in respect of office premises.

In 2012, Mr. Liu paid approximately RMB7,000,000 on behalf of the Group in respect of acquisition of prepaid land lease payments.

In 2011, Mr. Liu paid approximately RMB189,000 and approximately RMB1,366,000 on behalf of the Group in respect of PRC EIT payment and settlement of other payables respectively.

In addition, the Group received advances from, and made repayments to, Mr. Liu during the year ended 31 December 2012 and 2011. As at 31 December 2012, the amount due to Mr. Liu was RMB6,682,000 (2011: RMB60,233,000).

(ii) Pledge of assets and guarantees in support of the Group's borrowings

As at 31 December 2012, other than the pledge of assets of the Group, the Group's bank borrowings were also supported by:

(a) corporate guarantee given by Xiangyu PRC;

(b) personal guarantees provided by Mr. Liu and Ms. Zhou; and

(c) two properties owned by certain non-controlling shareholders of the Company's subsidiary.

As at 31 December 2011, the Group's bank borrowings were supported by:

(a) corporate guarantee given by Xiangyu PRC.

(iii) Pledge of the Group's assets in support of loans granted to Wangji

(a) On 7 September 2010, Wangji obtained a loan of HK$230 million from a financial institution. The collaterals of such loan were: (i) personal guarantee by Mr. Liu; (ii) pledge of the entire share capital of Wangji; (iii) pledge of the entire share capital of the Company; (iv) pledge of the entire share/registered capital of certain of the Company's subsidiaries; and (v) pledge of Xiangyu PRC's interest in two dredgers. On 28 September 2010, Wangji applied an amount of HK$200 million out of the above loan proceed to subscribe for an additional 10,000 shares in Power Wealth BVI. On 4 October 2010, 40% of the collaterals (ii) to (v) were released and reassigned to another financial institution for the purpose of securing another loan of HK$153 million obtained by Wangji on that same date as more described in note (b) below.

32. Related Party Disclosures (Continued)

(iii) Pledge of the Group's assets in support of loans granted to Wangji (Continued)

(b) On 4 October 2010, Wangji obtained a loan of HK$153 million from another financial institution. The collaterals of such loan were: (i) personal guarantee by Mr. Liu; (ii) pledge of the 40% of the share capital of Wangji; (iii) pledge of 40% of share capital of the Company; (iv) pledge of 40% of the entire share/registered capital of certain of the Company's subsidiaries; and (v) pledge of 40% of Xiangyu PRC's interest in two dredgers.

Collaterals (iii) to (v) as stated in (a) and (b) above were released during the year ended 31 December 2011.

(iv) Related party balances

Details of the balances due to Directors are set out in note 21 to the consolidated financial statements.

(v) Compensation of key management personnel

The emoluments of Directors who are also identified as members of key management of the Group during the reporting period are set out in note 12 to the consolidated financial statements.

33. Capital Risk Management

The Group manages its capital to ensure that the group companies will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the reporting period.

The capital structure of the Group consists of amounts due to Directors, amounts due to non-controlling interests of a subsidiary and bank and other borrowings as disclosed in notes 21, 22 and 23 to the consolidated financial statements respectively and equity attributable to shareholders of the Company, comprising paid up capital/share capital and reserves.

The Directors review the capital structure regularly. As part of this review, the Directors consider the cost and the risks associated with each class of the capital. Based on the recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

34. Financial Instruments

(a) Categories of financial instruments

	2012 RMB'000	2011 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**1,113,391**	849,986
Financial liabilities		
Amortised cost	**854,498**	166,018

(b) Financial risk management objectives and policies

The Group's major financial instruments include accounts and other receivables, pledged bank deposits, bank balances and cash, accounts and other payables, amounts due to Directors, amount due to non-controlling interests of a subsidiary and bank and other borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market, credit and liquidity risk. The policy on how to mitigate these risks is set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group has foreign currency transactions, which expose the Group to foreign currency risk. The Company will consider the use of foreign currency forward contracts to mitigate the risk when the need arise.

At the end of the reporting period, the carrying amounts of foreign currency denominated monetary assets that are considered significant by the management are as follows:

	Assets	
	2012 RMB'000	2011 RMB'000
US$	**16**	2,381
HK$	**569**	11,573

34. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) *Currency risk (Continued)*

The following table details the Group's sensitivity to a 5% (2011: 5%) increase and decrease in the functional currency of the relevant group entities against the relevant foreign currencies to the extent that the exposures have not been hedged. 5% (2011: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the year for a 5% change in foreign currency rates. On this basis, there will be an increase in post-tax profit where the functional currency of the relevant group entities weaken against the foreign currencies by 5%, and vice versa.

	Increase in post-tax profit	
	2012	2011
	RMB'000	RMB'000
US$	**1**	89
HK$	**21**	434

(ii) *Interest rate risk*

The Group is mainly exposed to cash flow interest rate risk in relation to variable-rate bank balances for the year ended 31 December 2012 (2011: variable-rate bank borrowings and bank balances). In addition, the Group was also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, amounts due to non-controlling interests of a subsidiary, certain accounts receivables and pledged bank deposits as at 31 December 2011 and 2012.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

For the year ended 31 December 2012, the Group does not expose to interest rate risk on financial liabilities as all bank borrowings are in relation to fixed-rate bank borrowings.

For the year ended 31 December 2011, the Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rate arising from the Group's bank borrowings.

34. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) *Interest rate risk* (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank balances as at 31 December 2012 (2011: variable-rate bank borrowings and bank balances).

The analysis is prepared assuming the outstanding amount at the end of the reporting date was outstanding for the whole year. For the year ended 31 December 2012, 50 basis points increase or decrease for bank balances are used whereas for the year ended 31 December 2011, 50 basis points increase or decrease for bank balances and bank borrowings are used, when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates for bank borrowings and bank balances respectively.

If interest rates had been higher/lower as indicated as above, and all other variables were held constant, the Group's profit for the year would increase as follows:

	2012 RMB'000	2011 RMB'000
Profit for the year	**114**	419

Credit risk

At the end of the reporting date, the Group's maximum exposure to credit risk which would cause a financial loss to the Group due to failure by the counterparties to discharge an obligation was arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk on receivables is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

34. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group also has a significant concentration of credit risk in relation to its trade customers as follows:

	2012 %	2011 %
Amount due from the largest customer as a percentage to total accounts receivables	**34**	35
Amount due from the five largest customers as a percentage to total accounts receivables	**90**	98

Because of its business nature, the Group normally transacts with large PRC state-owned companies and large private enterprises with solid financial background and hence the number of customers is typically small. Due to its small number, management regularly visits these customers to ensure that there is no dispute on the amounts due. In this regard, the Directors consider that the Group's concentration of credit risk is mitigated.

Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient cash reserves to meet its liquidity requirements in the short and longer term. Having considered the factors and circumstances set out in note 3 to the consolidated financial statements, the Directors are satisfied that the Group will have sufficient liquidity to meet its cash flows requirements for the next twelve months.

The following tables detail Group's contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from prevailing interest rate at the end of the reporting date.

34. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables

	Weighted average effective interest rate %	On demand/ less than 3 months RMB'000	3 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2012					
Non-derivative financial liabilities					
Accounts payables	—	214,492	—	214,492	214,492
Bills payable	—	72,000	12,000	84,000	84,000
Other payables	—	5,036	—	5,036	5,036
Amounts due to Directors	—	7,732	—	7,732	7,732
Amounts due to non-controlling interest of a subsidiary					
— non-interest bearing	—	74,635	—	74,635	74,635
— interest bearing at fixed rates	7.50	1,470	—	1,470	1,367
Bank borrowings					
— interest bearing at fixed rates	7.05	5,043	447,611	452,654	434,000
Other borrowings					
— non-interest bearing	—	23,230	—	23,230	23,230
— interest bearing at fixed rates	6.85	10,692	—	10,692	10,006
		414,330	459,611	873,941	854,498
At 31 December 2011					
Non-derivative financial liabilities					
Accounts payables	—	80,697	—	80,697	80,697
Amounts due to Directors	—	60,321	—	60,321	60,321
Bank borrowings					
— interest bearing at variable rates	7.08	—	14,353	14,353	14,000
— interest bearing at fixed rates	6.94	5,023	6,433	11,456	11,000
		146,041	20,786	166,827	166,018

The amounts included above for variable interest rate bank borrowings are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

34. Financial Instruments (Continued)

(c) Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

35. Share-based Payment Transactions

Pursuant to the written resolution of the shareholders of the Company dated 24 May 2011, the share option scheme (the "Share Option Scheme") of the Company was approved and adopted.

The Share Option Scheme was established for the purpose of providing incentives or rewards for the contribution of Directors and eligible persons. The Share Option Scheme will remain in force for a period of ten years from adoption of the Share Option Scheme. The Share Option Scheme will expire on 23 May 2021.

Under the Share Option Scheme, the Directors may at their discretion grant options to (i) any Director (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of the Company, any of its subsidiaries or any entity in which the Group holds an equity interest; or (ii) any suppliers, customers, consultants who provided services to the Group, shareholders of the subsidiaries of the Group and joint venture partners to subscribe for the Shares.

The offer of a grant of options must be taken up within 21 days of the date of offer. The maximum number of Shares in respect of which options may be granted under the Share Option Scheme shall not exceed 30% of the issued share capital of the Company at any point in time. The total number of Shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 10% of the Shares in issue at the time dealings in the Shares first commence on the Stock Exchange. The maximum number of Shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the Shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules.

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the Directors and commences after a certain vesting period and ends in any event not later than ten years from the date of grant of the relevant share option, subject to the provisions for early termination thereof. Options may be granted upon payment of HK$1 as consideration for each grant. The exercise price is equal to the highest of (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of the offer of grant; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the offer of grant; and (iii) nominal value of the Shares.

35. Share-based Payment Transactions (Continued)

The movements of the share options granted under the Share Option Scheme during the year are as follows:

					Number of underlying Shares in respect of the share options			
Category	**Date of offer**	**Vesting period**	**Exercise price per Share** HK$	**Exercisable period**	**Outstanding at 1 January 2012**	**Granted during the year**	**Cancelled during the year** (note ii)	**Outstanding at 31 December 2012**
Employees	30 March 2012	Immediate vesting	2.192	19 April 2012 to 30 March 2014	—	42,000,000	—	42,000,000
Others *(note i)*	30 March 2012	19 April 2012 to 19 April 2013	2.192	19 April 2012 to 30 March 2014	—	12,000,000	—	12,000,000
Others *(note i)*	29 May 2012	18 June 2012 to 18 June 2013	1.920	18 June 2012 to 29 May 2014	—	26,000,000	(14,000,000)	12,000,000
					—	80,000,000	(14,000,000)	66,000,000
Exercisable at the end of the year								42,000,000
Weighted average exercise price per Share					—	HK$2.10	HK$1.92	HK$2.14

Notes:

(i) These options were granted to eligible participants independent to the Group, who are considered to have contributed to the Group's continuing development and growth, for which no written terms of reference and service period are specified. In the opinion of the Directors, the provision of such services will be coterminous with the vesting period of the options. Accordingly, the fair value of these options is recognised as share-based payment expense over their vesting period.

(ii) During the year ended 31 December 2012, share options granted to subscribe for up to 14,000,000 Shares of the Company granted were cancelled by the respective grantees.

35. Share-based Payment Transactions (Continued)

The aggregate fair value of the share options granted during the year ended 31 December 2012 determined at the dates of grant using the Binomial Option Pricing model was HK$18,729,000 (RMB15,171,000), of which an amount of RMB9,156,000 (note 11) was recognised as a share-based payment expense for the year. The following data and assumptions were used to calculate the fair value of the options at grant date:

	Share options granted on 30 March 2012 (immediate vesting)	**Share options granted on 30 March 2012 (with 1 year vesting period)**	**Share options granted on 29 May 2012 (with 1 year vesting period)**
Share price immediately before dates of offer	HK$2.04	HK$2.04	HK$1.85
Share price at dates of acceptance	HK$1.68	HK$1.68	HK$1.88
Exercise price	HK$2.192	HK$2.192	HK$1.920
Expected volatility	39.420%	39.420%	39.282%
Expected option period	1.9452 years	1.9452 years	1.9781 years
Risk-free rate	0.223%	0.223%	0.239%
Expected dividend yield	2.00%	2.00%	2.00%
Estimated fair value of each option	0.1782	0.1794	0.3497

The variables and assumptions used in computing the fair value of the share options were based on the Directors' best estimate. The value of an option varies with different variables under certain subjective assumptions.

36. Statement of Financial Position of the Company

The statement of financial position of the Company as at the end of the reporting period is as follows:

	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS		
Unlisted investments in subsidiaries	**167,445**	167,445
CURRENT ASSETS		
Amounts due from subsidiaries	**415,270**	425,623
Other receivables	**14**	1,017
Bank and Cash	**245**	8,442
	415,529	435,082
CURRENT LIABILITIES		
Other payables	**4,960**	2,837
Amounts due to Directors	**2,365**	169
	7,325	3,006
NET CURRENT ASSETS	**408,204**	432,076
TOTAL ASSETS LESS CURRENT LIABILITIES	**575,649**	599,521
CAPITAL AND RESERVES		
Share capital	**67,200**	67,200
Reserves *(Note)*	**508,449**	532,321
	575,649	599,521

Note:

Reserves of the Company

	Share premium RMB'000	Share option reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	—	—	—	(21,532)	(21,532)
Issue of shares pursuant to the Reorganisation *(note 24(iii))*	—	—	165,238	—	165,238
Issue of share through Global Offering *(note 24(iv))*	519,120	—	—	—	519,120
Translation cost attributable to issue of new Shares	(45,309)	—	—	—	(45,309)
Capitalisation Issue *(note 24(v))*	(42,000)	—	—	—	(42,000)
Loss and total comprehensive expense for the year	—	—	—	(43,196)	(43,196)
At 31 December 2011 and 1 January 2012	431,811	—	165,238	(64,728)	532,321
Loss and total comprehensive expense for the year	—	—	—	(20,068)	(20,068)
Dividend declared *(note 14)*	(12,960)	—	—	—	(12,960)
Recognition of equity-settled share-based payments *(note 35)*	—	9,156	—	—	9,156
At 31 December 2012	418,851	9,156	165,238	(84,796)	508,449

37. Particulars of Subsidiaries

Particulars of the Company's subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Country operation and date of incorporation/ establishment	Issued and fully paid ordinary share capital/ registered capital	Attributable equity interest held by the Company 2012	2011	Principal activities	Form of company
Directly owned						
Power Wealth Group (BVI) Limited	British Virgin Islands 17 May 2010	US$20,000	**100%**	100%	Investment holding	Limited liability
Xiangyu Dredging Company Limited 翔宇疏浚有限公司	Hong Kong 14 May 2010	HK$10,000	**100%**	100%	Investment holding and entered into strategic alliance with a supplier	Limited liability
Indirectly owned						
Power Wealth Engineering Limited 力富工程有限公司	Hong Kong 3 July 2002	HK$100,000	**100%**	100%	Investment holding and provision of dredging consultation services	Limited liability
Jiangsu Xiangyu Port Constructing Project Administration Company Limited* 江蘇翔宇港建工程管理有限公司	PRC 11 June 2010	US$40,000,000	**100%**	100%	Provision of dredging services	Wholly-owned foreign enterprise
Jiangsu Xiangyu Water Management Company Limited* 江蘇翔宇水務有限公司	PRC 3 August 2011	RMB174,782,386	**100%**	100%	Provision of dredging and water management services	Wholly-owned foreign enterprise
Jiangsu Xingyu Port Construction Company Limited* 江蘇興宇港建有限公司	PRC 13 July 2007	RMB39,315,800	**100%**	100%	Provision of dredging services	Limited liability
Jiangsu Jiaolong Salvage Harbour Engineering Co Ltd.* 江蘇蛟龍打撈航務工程有限公司 *(note)*	PRC 22 July 1977	RMB72,754,776	**51%**	—	Provision of marine hoisting, installation and other engineering services	Limited liability

* *for identification only*

Note: This company was acquired during the year ended 31 December 2012. Please refer to note 27 to the consolidated financial statements for details.

None of the subsidiaries had any debt securities outstanding at the end of the reporting period, or at any time during the year.

38. Event After the Reporting Period

Pursuant to an announcement by the Company dated 31 December 2012, the Group entered into a conditional agreement with one of its major trade debtors (the "Debtor") whereby the Debtor would transfer its (i) 95% equity interest in a company established in the PRC (the "TargetCo"), the sole asset of which is two pieces of land in the PRC and (ii) its shareholder's loan therein, in lieu of settlement for certain trade debts due to the Group (the "1st Agreement"). The amount of such trade debts to be settled in this manner is RMB288,293,000 (comprising current portion of RMB251,798,000 and non-current portion of RMB36,495,000) as determined with reference to the adjusted net assets value of the TargetCo based on a valuation report by 江蘇仁和資產評估有限公司, a registered valuation firm in the PRC which is independent to the Group.

Concurrent with the above arrangement, the Group also entered into another conditional agreement to acquire the remaining 5% equity interest in the TargetCo from the non-controlling interest owner therein for a consideration of RMB400,000 (the "2nd Agreement").

On 22 March 2013, the Group entered into a conditional sale and purchase agreement with an independent third party (the "Third Party") whereby the Group has agreed to transfer to the Third Party its 85% equity interest in the TargetCo together with the 85% of shareholder's loan for a total consideration of approximately RMB253 million (the "3rd Agreement"), to be settled in the following manner:

(i) deposit of RMB10 million within three days of signing of the 3rd Agreement;

(ii) payment of not less than RMB70 million (not including the deposit) before 31 December 2013;

(iii) payment of not less than RMB 100 million during the year ending 31 December 2014; and

(iv) payment of any outstanding balance before 31 December 2015.

Interest is payable by the Third Party to the Group at a rate of 6% per annum on the amount of unpaid balance starting from 1 January 2014.

As at the date that these consolidated financial statements are approved by the Directors, the above transactions have not been completed.